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Democracy vs technocracy : national parliaments and fiscal agencies in EMU governance

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Democracy vs technocracy: national parliaments and fiscal agencies in EMU governance

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Abstract

Taken together, both technical and intergovernmental bodies have reinforced their positions in the EU macroeconomic governance framework. By contrast, representative assemblies have a much more limited role on a policy domain that has seen a significant overhaul of EU scrutiny, control and sanctioning powers. This means a reconfiguration of authority, delegation and the institutional governance of the Eurozone. In order to assess these changes, this study looks specifically at two recent developments in the EMU governance framework: the creation and consolidation of Independent Fiscal Institutions (IFIs) and the role of national parliaments in the European Semester. These two phenomena not only represent a significant innovation in terms of governance, but also a new example of the tension between technocracy and democracy that has been at the core of the EMU architecture since its inception and can be linked with the EU democratic deficit. The paper analyses the institutional design and the mandate of the IFIs, as well as the role played by the national parliaments in the European Semester. The analysis concludes that fiscal agencies can have mix effects over legitimacy, democratic representativeness, and accountability, arguing that the key to know which effect dominates over the other lies in the cooperation between fiscal agencies and national parliaments. This cooperation could also improve the national parliaments' effectiveness and their ability to scrutinize the governments and the European Semester.

Keywords

Technocracy, Fiscal Agencies, European Semester, EMU, Fiscal Governance

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1. Introduction

As a part of the Reconnect project, Task 2 of the Working Package 10 explores authority, delegation and legitimacy in the EU fiscal and macroeconomic governance. Thus, this task addresses the institutional structure of EU fiscal and macroeconomic governance as resulting from the numerous innovations introduced in reaction to the Eurozone crisis. Taken together, both technical bodies (i.e. Commission and ECB) and intergovernmental ones (i.e. Council and European Council) have reinforced their positions in the EU macroeconomic governance framework. By contrast, representative assemblies have a much more limited role on a policy domain that has seen a significant overhaul of EU scrutiny, control and sanctioning powers. This opposition between technical agencies (based on a principle of efficiency of fiscal and macroeconomic policy) and democratic representation bodies happens at two levels: the EU and the national one. In the later, national parliaments have seen their role limited (e.g. via the European Semester) whilst governments and technical agencies, such as the independent fiscal institutions, have seen their role reinforced. This implies a small but relevant change in the model of authority that, unavoidably, is bound to raise legitimacy questions.

Two recent developments in the EU governance framework result relevant in order to elicit a proper judgement on the model of authority: the consolidation of Independent Fiscal Institutions (IFIs) and the role of national parliaments in the European Semester. Both phenomena represent a significant innovation in terms of governance as much as the paradigmatic case of the tension between technocracy and democracy at the core of the EMU architecture since its inception. The juxtaposition of these dimensions determines EU macroeconomic and fiscal governance and its democratic implications.

Independent Fiscal Institutions (IFIs) or fiscal agencies – we will use these terms interchangeably – can be defined as non-partisan and autonomous institutions with a mandate to assess fiscal policies, analyse spending proposals, monitor compliance with certain fiscal rules or requirements and, in some cases, provide technical advice on fiscal policy matters. The extent of their mandate, their degree of independence and the resources they count with vary significantly across countries. However, regardless of these differences, they have become relevant actors in the fiscal policy governance framework of the EU countries.

These institutions have existed for a long time in some European countries, such as Belgium (1936), Netherlands (1945), Denmark (1962) or Austria (1970). In the last decade, the number of IFIs and their competences has increased considerably, as a result of the new EU fiscal governance framework, established through the Council Directive 2011/85 on requirements for national budgetary frameworks, the Fiscal Compact and the 'Two-Pack' Regulation 473/2013. Thus, a large number of Member States have created fiscal agencies *only* after the above-mentioned regulations.

The consolidation of fiscal agencies within the EU can be thought of as a part of a wider phenomenon: the agencification of economic policy-making, a trend that is particularly strong in the EU (Closa, 2014). Thus, for instance, central banks have increased their powers and have positioned themselves as major political actors in advanced economies. In the specific case of the EU, the importance of the European Commission, the ECB and the wide range of minor

agencies has strengthened even further. In this context, fiscal agencies can be considered as the latest development of this phenomenon.

This innovation in the governance framework creates, of course, risks and opportunities. On the one hand, the delegation can have positive effects such as the professionalization of the decision-making process, an increase in spending efficiency and policy evaluation, a higher level of transparency, or the removal of conflictive elements from the debate in a polarized society. On the other hand, the delegation of certain aspects of the fiscal policy to an independent agency challenges for democratic authority in terms of accountability, representation, the organization of the political discussion and the generation of fiscal policy outcomes. Furthermore, the introduction of the EU level in the budgetary cycle with the European Semester exacerbates these effects. The Semester has dramatically changed the political process behind the budgets and the implementation of fiscal policy in the Member States.

The second part of our analysis focuses precisely on the role of national parliaments in the European Semester. The European Semester is a mechanism designed to coordinate the socio-economic policies of EU countries. Thus, the Semester is a policy-making cycle that brings together a variety of institutions in the implementation of several mechanisms. As in the case of fiscal agencies, the European Semester represents both a challenge and an opportunity for national parliaments. Hence, depending on their scrutiny capacity and on a series of institutional arrangements, parliaments can gain influence over the agenda and be more informed at different stages of the policy-making process. However, this does not need to be the case and the already discussed process of agencification or the parallel growing influence of intergovernmentalism within the EU can also reduce the influence of national parliaments. Regardless of the outcome, the connection between the work of fiscal agencies and the role of national parliaments during the European Semester is clear in procedural and substantial terms.

This paper contributes to the existing literature in, at least, three significant ways. First, it analyses two recent institutional developments in the EMU governance framework and connects them with significant underlying trends and the tension between democracy and technocracy in the EU governance framework. Secondly, the paper presents an exhaustive analysis of a wide range of indicators on fiscal agencies, allowing us to present one of the most comprehensive and detailed pictures of these agencies. This effort is not only useful for our immediate purposes, but it also provides evidence to challenge some of the existing theories on the creation of these institutions, to identify relevant research questions and the limitations of some indicators, and to open the room for several venues to expand this research. Finally, the joint examination of the role of fiscal agencies and national parliaments within the European Semester allow us to discuss the normative implications of the EMU governance framework in terms of legitimacy, accountability and democratic representativeness. Moreover, the current context, offer us an opportunity to link the discussion and our findings with some of the reforms proposed to improve the EMU governance framework.

The rest of the paper is structured as follows. First, we examine the debate on the democratic deficit of the EU, focusing on tension between technocracy and democracy, particularly in the potential effects of the agencification and depoliticization of fiscal policy generated by recent institutional developments. Then, we analyse separately the two institutional developments

previously identified: fiscal agencies and the European semester. After a review of the theoretical literature on the role and creation of fiscal agencies, we examine how these institutions fit within the EU governance framework. Then, we move on to present a descriptive analysis of the existing fiscal agencies, examining dimensions such as their institutional design, resources, level of independence, etc. In the following section, we review the functions carried out by these institutions within their national system, assessing the role and comparing their level of influence. In the second part of our analysis, we examine the institutional design and the legal basis of the European semester. After that, we review the role of the national parliaments in the European semester, identifying their different capacities in the budgetary process and their ability to scrutinize the national governments. Finally, after examining separately each issue, we conclude with a brief critical discussion on the normative implications of these two institutional developments.

2. The tension between democracy and technocracy in the EMU: a classic debate

Scholarly consensus coincides on the diagnosis that the European Union suffers from a certain democratic deficit (Weiler et al., 1995; Follesdal and Hix, 2006). Democratic deficit has persisted over time and has proven difficult to eradicate. Sánchez-Cuenca (2017) synthesizes the elements identified by the literature as the main sources of said deficit in three points: the weakness of the European Parliament vis-à-vis the European Commission and the Council, a transference of sovereignty and national competences to the European level that has also weakened national parliaments versus the executives, and the fact that there is no real competition for power as European elections are second-order and elect a chamber with limited capacity. In addition, the Eurozone crisis has accelerated this historical trend by reducing the performance-based legitimacy, increasing the distributive conflicts between countries that damaged the perception of the EU as a mere pro-efficiency regulator, and leading to a resolution of the crisis that was eminently technocratic.

The tension between political (democratic) authority and technocratic authority may well become part of this deficit. Two recent developments in the EU macroeconomic governance framework have deepened this tension. On the one hand, the creation of independent fiscal institutions (IFIs) implies the delegation of certain aspects of fiscal policy to technocratic institutions and continues thus the trend toward agencification within the EU. On the other hand, the establishment of the European Semester represents the Europeanization of fiscal policy and the participation of external actors in the national budgetary processes, potentially interfering with the role of national parliaments.

Technocratic traits are present in numerous instances of the EU, but its extension to the fiscal policy-making is particularly challenging due to the highly political nature of fiscal policy and its transversal role. Following Caramani (2020: 3), we can define technocracy as *‘a form of power in which decisions over the allocation of values are made by experts or technical elites based on their knowledge, independently and in the long-term interest of the society’*. The belief that the interests of society can be objectively identified and measured informs technocratic regimes. By implication, the assumption is that societal interests are uniform or, to the very least, that

the losing sectors can be compensated. This ultimately justifies that experts design the ‘correct’ policies. Thus, technocracy implies a scientific, holistic and elitist conception of politics.

Technocratic legitimacy derives from the expertise or specialized knowledge and, indirectly, from its performance. Not surprisingly, technocrats are more likely to be appointed to the government in times of economic crisis (Alexiadou and Gunaydin, 2019). Due to its inherent characteristics, technocracy is at odds with representative democracy, which is grounded in the idea that only through the aggregation of subjective preferences we can identify the social interest and capture the preferences of the society.

Technocracy challenges democratic regimes because of the depoliticization of certain policy areas, the threat to pluralism, the supposed ideological neutrality, the lack of representation (in terms of responsibility, unaccountability, exclusion), and the autonomy given to technocrats (Caramani, 2020). For the purpose of our discussion, the most significant challenges are the lack of legitimacy, accountability and the democratic representativeness in the EMU governance framework. Thus, the Europeanization and the delegation of fiscal policy-making to technocrats reduces the input legitimacy derived from a more participatory process. Similarly, the highly specialized nature of technocratic bodies and their autonomy may limit their accountability. This, combined with the process through which technocratic bodies identify policy problems, design responses and implement those responses hinders the democratic representativeness of the measures implemented which are effectively depoliticized and remove from the public discussion.

Obviously, since there is no such thing as a pure technocratic regime and representative democracy is compatible with the delegation of certain areas to non-elected bodies, many institutions within democratic regimes contain technocratic elements. Therefore, the tension between technocracy and democracy is located here. The governance framework needs to look for a balance between the principles of efficiency and expertise and those of legitimacy, accountability and democratic representativeness.

The complex relationship that exists between the delegation of certain policies and the democratic representativeness is an issue thoroughly covered in the political science literature (Fernández-Albertos, 2001). The issue is even more prominent in the case of the EU, where agencies have occupied a prominent place since its inception, while the legislative chambers (both the EP and the national parliaments) have played a more limited role than the one they used to have at the national level.

The classic literature on agencies explains how this type of institutions are created in the first place (Kiewiet and McCubbins, 1991; Majone, 2001). In short, political decision-makers opt, for a number of reasons, to delegate certain aspects of a policy to an independent agency, endowing it with a more or less defined mandate and with prerogatives to act on it. This means that the politicians themselves renounce to part of their power and transfer it to another institution with the intention of achieving a desired policy goal. We will discuss in depth the reasoning behind the delegation of fiscal policy to independent institutions. It is enough to say here that such decision is made on the basis of efficiency or to solve a problem that requires less interferences from the standard political process.

The establishment of independent agencies can go hand in hand with the creation of policy rules. In fact, they are usually presented as alternative or complementary solutions (e.g. Hallet and Jensen, 2012) and we can find significant examples of this type of rules in Wyplosz (2005) or Lledó et al. (2017). In the European case, this complementarity is evident with the co-existence of a set of rigid rules regarding the level of debt or deficit and several agencies (e.g. fiscal agencies or ECB). These rules include a series of procedures and requirements that limit the degree of discretion of the fiscal policy. However, as the crisis showed, rules by themselves were not enough to be effective or are too rigid to operate automatically. Hence, in addition to strengthening the rules, the reforms also created a several mechanisms and institutions to improve the management and coordination of the national fiscal policies, e.g. fiscal agencies and the Semester.

This framework represents a clear limitation to the reach and the power of national parliaments, which suffer from a loss of prerogatives towards the European institutions, the national executives, the technocratic agencies, and the rules and procedures (European Semester) established by the European governance framework.

2.1 The progressive agencification of the EU

The EU is a paradigmatic example of delegation and its potential effects on democratic representativeness. Thus, since its creation, agencies have played a fundamental role in the European governance framework. As a result, several scholars have analyzed the role of the European Commission (Pollack, 1997) the ECB (Elgie, 2002) or the myriad of smaller agencies (Thatcher, 2011 or Tesche, 2020).

As we have already pointed out, there is a wide consensus on the existence of a democratic deficit in the EU. Without the intention of delving too deeply into its causes, we can say that European arena used to be seen as a rather technical level (Majone, 1993) and the issues delegated to that level would not be politicized even if they remained at the national level (Moravcsik, 2002). In a way, delegating an issue to the EU resembled delegation in favor of a technical agency. However, during the last decade we have witnessed an increasing politicization of the policies managed at the European level, especially due to the greater economic integration and the need to coordinate national policies. Conversely, an equivalent democratization process has not accompanied the growing politicization of the European agenda. That is, there has not been significant progress in the establishment of new channels that allow citizens to express their preferences nor in the development of better accountability mechanisms.

Closa (2014) already pointed out that following the reform of the economic governance framework that occurred after the economic crisis, the trend towards agencification grew. Several features reflected this trend: the increasing power of the European Commission, the marginal role assigned to the parliaments and the limited inter-parliamentary cooperation. In addition to these three features, we could add the significant expansion of the ECB's scope of action or the emergence of other minor agencies. Therefore, agencification means the growing process of delegation of tasks and prerogatives to independent institutions, in parallel with the restriction or limitation of democratic channels.

The expansion of the ECB has been remarkable and, as a result, there has been several attempts to question its attributions, particularly from the German Constitutional Court, which declared *ultra vires* (beyond the powers) the CJEU rule in *Case C-493/17 Weiss and others* in 2020. Although this and other decisions (Hinarejos, 2015) from the Court may be connected with an attempt to hold accountable European institutions, with the protection of the competences of national institutions or with the limits between monetary policy and fiscal policy, they remain beyond the scope of this paper.

Within the framework of authority delegation in the EU, the European Commission has probably attracted the largest attention from academic research (and public opinion). Although the Commission has certain traces of an agency and the literature has applied the principal-agent framework to its study on numerous occasions (Pollack, 1997; Schmidt, 2000; Wilks, 2005), the Commission counts with more democratic legitimacy and channels of accountability than the typical technocratic agency. Hence, the Commission is halfway between an agency, a government and a legislator.

After the economic crisis, the Commission reinforced its position on a variety of areas, acquiring key competencies in the macroeconomic and fiscal policy governance and becoming a political actor of its own (Closa, 2014; Nugent and Rhinard, 2019). A good example of these competences is the key role that the European Commission plays in the European Semester, being responsible for the preparation of the Annual Growth Survey and setting the growth priorities, going through the review of the different plans and reports presented by the Member States or issuing the Country Specific Recommendations. Although these recommendations are ultimately modified or reaffirmed by the Council, the commission sets the agenda and coordinates the work behind the entire Semester.

In spite of this, the Commission has not increased, in practice, its power as much as it may seem (da Conceição-Heldt, 2016). In fact, it has lost its exclusive role as agenda-setter and intergovernmental institutions have acquired the growing influence (Puetter, 2012; Bressanelli and Chelotti, 2016; Fabbri, 2016). However, even accepting this assumption, the acquisition of new competences and the mutation of the pre-existing roles assigned to the Commission leaves a positive balance in its favor (Bauer & Becker, 2014 and 2016; Closa, 2014).

If the Commission has significantly increased its powers, the ECB is not far behind. Since Draghi's famous '*whatever it takes*' speech, the ECB has notably expanded its powers. First, a broad interpretation of its mandate allowed it the implementation of unconventional monetary policy and the intervention in the secondary market through instruments such as OMT or PEPP. In other words, the ECB empowered itself (Heldt and Mueller, 2020). In addition, the ECB has seen its role expanded in matters of financial stability, particularly in macro prudential policy and the banking union (supervision, resolution, etc.).

However, regarding this last point, we should also mention that other agencies with competences over the regulation and supervision of the financial system have been created. Although less influential, the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA), European Insurance and Occupational Pensions Authority (EIOPA), European Systemic Risk Board (ESRB) and the Single Resolution Board (SRB) belong also to the group of EMU agencies. In this context, fiscal agencies can be conceived as the most recent

institutional development of the technocratization and agencification tendencies, offering a paradigmatic example of the depoliticization of fiscal policy governance. Their existence, as we will see, is largely justified on efficiency arguments, but it does not stop them from posing a challenge for democratic representativeness.

2.2 The erosion of representative institutions: the role of national parliaments in the European Semester

Along with agencification, another major factor behind the EU democratic deficit and its technocratic tendencies is the small role assigned to the legislative chambers. The combination of both phenomena is particularly obvious in the Economic and Monetary Union (EMU). On the one hand, Member States have conferred to a new, supranational agency (the ECB) the exclusive competence over the monetary policy of the common currency. On the other hand, these states have decided to retain fiscal and other economic policies as national competences without articulating a common fiscal policy nor strong enough coordination mechanisms at parliamentary level. Instead, coordination is based on informal meetings between national executives that rely on peer-pressure and shaming-and-naming techniques as their working methods. The role of the European Parliament in this field is residual. All this renders even more difficult solving the problems derived from the lack of mechanisms for the transmission of citizens' preferences and from the need for institutional accountability.

Traditionally, the literature on the EU legislative power has focused on analyzing the marginal role assigned to the European Parliament and its struggle to increase its powers. Thus, from the beginning the weakness of the European Parliament vis-à-vis the Council and the Commission received a lot of attention (Steunenbergh, 1994; Crombez, 1996). Over time, the European Parliament has gained several prerogatives and it has consolidated as a political actor (Hix and Høyland, 2013; Closa, 2020), but not at the same speed than other EU institutions. However, due to the lack of competences on economic policy issues, the role of the European Parliament in this field has barely increased – and, if so, not at the same pace as in other areas of integration.

In recent years, national parliaments have started to receive more attention from the academic community, e.g. Auel (2007) or Raunio (2011). As we will see later on, the EU macroeconomic and fiscal governance has undergone significant changes, extending its range towards competences clearly related with the mandate of the national parliaments. Thus, the creation of the European Semester and the subsequent Europeanisation of national fiscal policies and budget cycles necessarily entail involving national parliaments, ultimately approving national budgets in a more harmonized policy process.

Despite this need to coordinate national budgetary policies, these issues remain core national competence. Consequently, the role of national parliaments in the European Semester can only be defined by EU secondary law on a very vague way. Thus, the Six-Pack refers only to the need to involve national parliaments in the preparation of stability, convergence and national reform programmes in Regulation 1175/2011. Then, the Two-Pack confers national parliaments a right to demand the intervention of a representative of the Commission to explain some of the assessments and requirements made from the European level to the national budget. Precisely because of this, several authors have observed that the degree of parliamentary involvement

and their ability to scrutinize the European Semester or hold the government and the EU institutions accountable varies considerably across countries (Closa; 2014; Hallerberg et al., 2018; or Rasmussen, 2018).

Although allowing for a substantial degree of divergence between national systems, the European Semester is an innovation that has several implications for democratic representativeness and accountability, since it increases the influence of European actors, especially the European Commission, over national fiscal policy and the budgetary process. The strategy to control the alignment of Member States to the specific needs of the common currency after the crisis was thus based on two pillars. On the one hand, the strategy relied on the establishment of independent fiscal agencies that can anchor national budgets to realistic forecasts and provide sound advice before executives and national parliaments take a final decision on the matter. This is made on the name of the need of actual performance by Member States according to the requirements of the euro. On the other hand, the strategy indirectly affects national parliaments budgetary position via the new European Semester.

At the time of writing, discussions continue on how the European Semester should evolve to accommodate the governance of the Recovery and Resilience Facility. The European Commission announced on September 17th that the European Semester, in its current form, would be suspended – most likely until 2023. As a result, the Commission will not issue Country Reports and Member states should integrate their National Reform Programmes within the Recovery and Resilience Plans. Hence, the process of selecting the spending priorities, allocating and monitoring the recovery funds, and designing the necessary reforms to access these funds will inevitably politicize even more the EMU governance framework.

In a recent study for the EP, Crum (2020) examines the question on how to provide political guidance to the RFF and explores some of the challenges that this could represent. This new development opens the room for a permanent reform of the European Semester and it offers an opportunity to tackle some of the issues that we will address during our analysis. Hence, subject to the limited information available for the moment, we will try to include in our analysis the changes in the EU fiscal governance framework and discuss its democratic implications.

3. Independent fiscal Institutions (IFIs) in the EU: delegating fiscal policy

3.1 The debate on the delegation of fiscal policy in the political economy literature

The idea of delegating fiscal policy to an independent agency is not new in the political economy literature. Some of the arguments behind it are the same to those applied to the delegation of monetary policy to central banks (Wyplosz, 2008). In the last years, this theoretical debate regained relevance due to the creation of several independent fiscal agencies around Europe as part of the new macroeconomic governance established after the Great Recession and the Eurozone crisis.

The original argument in favour of the IFIs builds on the so-called deficit bias, i.e. democratic politics may produce an unavoidable bias towards increasing public deficits because of a combination of voters' myopia and opportunistic politicians' incentives. Policy-makers have incentives to stimulate the economy artificially before the election (Nordhaus; 1975). Thus,

they would increase employment above equilibrium level and increase their chances of re-election without the voter perceiving the long-term cost (higher inflation or deficit). The common pool problem (Weingast et al., 1981) aggravates the tendency towards deficit bias, creating incentives for different groups to organize and demand targeted programs, while the policy-makers have electoral incentives to offer them since the benefits of such programs (support of a specific group) outweighs the short-term costs (limited opposition as costs are dispersed along a larger group). The problem becomes evident when expenditure increases to a level in which it becomes unsustainable.

Even if recent evidence suggests that austerity does not necessarily have to be unpopular in an election (Alesina et al., 2011 and 2019), most politicians assume so and try to avoid it (Hübscher and Sattler, 2017). Hence, politicians' short-term interests may delay the implementation of structural reforms and fiscal consolidation, leading to a higher level of deficit than the one voters would have preferred (Alesina and Tabellini, 1990; Rogoff, 1990). Following this logic, we could infer that there is certain asymmetry in fiscal policy, where much is spent in during negative cycle but little is saved in the expansion.

Temporal inconsistency (Kydland and Prescott, 1977; Barro and Gordon, 1983; and Persson and Svensson, 1989) has also enhanced the push towards delegation. The argument holds that an optimal policy at time t may not be optimal at time $t+1$, which could hinder the credibility of the policy-maker because she would have incentives to betray her word and apply a different policy (the optimal policy in $t+1$). This would drive rational actors to expect a change of policy, leading to an inefficient outcome. Additionally, the attempt to solve the inconsistency problem in monetary policy, through the delegation of this area to central banks, brought as an unintended negative effect the transformation of the inflation bias into a fiscal bias (Agell et al., 1996; Castellani and Debrun, 2005). Since most advanced economies have delegated the management of monetary policy to independent central banks, this argument becomes even more relevant and fits particularly well the case of the EU.

Finally, the specific structure of incentives generated in a monetary union becomes particularly relevant for the EU. Thus, one of the incentives that governments have to practice fiscal responsibility is the disciplinary effect played by the markets, i.e. if a government incurs in an unsustainable deficit or debt, it will face higher borrowing costs and inflation. This creates incentives that induce governments to maintain solid public finances. However, in a monetary union, such mechanism can be diluted in the aggregate balance and some countries – e.g. small economies – may have incentives to spend more without having to assume the costs (Beetsma and Bovenberg, 1999).

All these arguments would justify that politicians delegate the fiscal policy to an independent agency led by technocrats, which would then take the decisions based on technical criteria and would increase welfare. However, unlike in the case of monetary policy, such delegation did not happen. Why did similar arguments succeed for monetary policy and failed for fiscal policy? Mainly because fiscal policy has a strong political and distributive dimension. While political actors perceive monetary policy as more technical than political – even if some scholars have recently questioned this notion (Fernández-Albertos, 2015) –, fiscal policy is a highly politicized issue. The control over the budget, the level of spending, the allocation of resources and the definition of spending priorities are at the heart of the political debate. Hence, while the

delegation of monetary policy could produce significant gains at little cost – e.g. increasing credibility, reducing inflation, promoting stability and fostering growth –, the delegation of fiscal policy would be at a much higher cost in terms of power and electoral advantages.

The debate on the delegation of fiscal policy has regained attention in recent years, although with a more limited approach, evolving towards agencies with smaller roles and focused on the delegation of only some technical tasks (preparation of forecasts, monitoring public finance, etc.). Such form of delegation could be politically more viable and still have positive effects (Jonung and Larch, 2006). Thus, following this approach, many developed economies have established some type of fiscal agency, including the EU that has incorporated this figure to the new economic governance framework.

3.2 The origins of the independent fiscal institutions in Europe

Although independent fiscal agencies are relatively new for the vast majority of European countries, a small group of countries pioneered the establishment of these institutions, i.e. Belgium (1936), the Netherlands (1945), Denmark (1962), and Austria (1970). Obviously, the competences and mandate of these institutions have changed considerably over time, including those changes necessary to adapt to the EU requirements to act as the designated independent fiscal institution.

The Belgian High Council of Finance exemplifies this evolution. Originally created as an advisory institution on a technical capacity after combining several bodies and departments, the reforms in the 1980s (1981 and 1989) reinforced its position over fiscal policy. Its mandate was updated in 2006 and it was finally designated as the independent fiscal institution required by the European governance framework in 2013. In parallel to these developments, Belgium also created the Federal Planning Bureau in 1959 to provide proposals and design economic plans. The Bureau was reformed in 1970, 1980 and 1994, abandoning part of its former tasks and focusing on the preparation of economic projections and impact studies. Thus, Belgium is not only an example of a country with an old and well-established agency, but also an example of a dual agency model.

The Great Recession and the Eurozone crisis created a new environment for existing paradigms regarding the role of fiscal agencies. On the background of a seemingly broad consensus on the need of profound reforms for the EU macroeconomic governance system in order to avoid future crisis (Laffan and Schlosser, 2016; Bressanelli and Chelotti, 2016), it was clear that the EU needed more coordination and stronger mechanisms of control (Buti and Carnot, 2012). However, there were disagreements on the new design and on the mechanisms that should be implemented. Thus, while some actors argued in favour of a much deeper integration, others preferred to reinforce the existing governance and increase the compliance with the fiscal rules (Maris and Sklias, 2016; Schild, 2020).

Since examining in depth the reforms of the EU macroeconomic governance is beyond the scope of the paper, the interested reader can check Buti and Carnot (2012) or Closa (2014) for a general overview. Here, it is enough to say that the narrative of these reforms was heavily influenced by the ideas that the crisis was the result of an irresponsible management of public finances and that the solution was to increase austerity and control spending (Matthijs and

McNamara, 2015; Helgadóttir, 2016; Woodruff, 2016). On the legal domain, this translated into the search of an increased enforceability of the macroeconomic governance framework rules, including through the creation of the European Semester.

This narrative is consistent with the arguments identified in the classic political economy literature that justify and promote the creation of fiscal agencies. Hence, those agencies were obvious instruments and mechanisms designed to improve compliance with the fiscal rules and to control the finances of Member States. Unlike fiscal rules and conditionality, these agencies were not a major figure in the debate nor were they in the spotlight during the negotiation of the reforms. Hence, to find the arguments used in the discussion and to see the degree of political contestation one must look at the debates held in the parliaments over the creation of the national agency. Since, to our knowledge, such an analysis has not yet been done, it could be an interesting approach to continue this line of research.

Tesche (2019b) identifies three explanations for the creation of these organisations in the EU. The first one is a power-based explanation, which argues that states that were experiencing financial problems were forced to implement these reforms by external actors. These external actors could be international organisations (IMF), EU institutions (European Commission, ECB) or foreign national governments (creditors countries, e.g. Germany). This narrative is attractive considering that the *troika* explicitly demanded or supported these agencies, e.g. during bailout programs of Hungary (Kopits and Romhanyi, 2013) and Romania (Ban, 2016) or in the memoranda of understanding of Ireland, Greece and Portugal (Fromage, 2017a). However, as Tesche notes, this theory would not explain the significant variations in terms of institutional design, autonomy, resources and functions across these institutions. Moreover, some states over-comply with the requirements without being subject to any obligations, while others under an assistance program reluctantly implemented the minimum requirements. Finally, it is difficult to assess how much of an imposition it was or if the states could have negotiated this demand.

The second explanation presents a functional rational choice argument. In this interpretation, the smaller or financially-troubled states would self-impose a strong and independent agency to signal its commitment to a sound fiscal policy to both the markets and the EU. It is worth mentioning that gaining credibility was also one of the reasons why certain countries (i.e. Italy or Spain) joined the EMU (Koehler and König, 2015; Hopkin, 2015). Moreover, if parties anticipate that they may have to implement austerity measures, they may have incentives to create a technocratic fiscal body to avoid the blame for such policies. This explanation has also some valid points, contributing to explain why some countries without an agreement created strong fiscal agencies and is in line with the political economy literature and the signalling literature. However, it does not explain why the older agencies were established.

Finally, the constructivist explanation is based on the ideational dimension, which argues that the expansion of the ideas that promote these institutions (closely connected with the arguments presented in section 3.1) and prioritize sound public finances would be behind the creation of strong agencies. This would be in line with the role played by the German ordoliberal model in the design of the EMU architecture and in the response to the Eurozone crisis (Dullien and Guérot, 2012; Closa, 2014; Matthijs, 2016). However, this explanation is undermined by the fact the Germany has an agency with very limited attributions and resources. Thus, the

argument that some countries were promoting fiscal agencies out of an ideological conviction is weakened by the fact that the clearest representative of this ideological group does not pass the test itself.

Although the goal of this paper is not to identify the factors behind the creation of the IFIs, it is worth mentioning that the evidence provided so far on this issue is scarce, to say the least. Due to the novelty of these institutions and the lack of data, it is difficult to identify and test the causal mechanism that led to the creation of these institutions. To our knowledge, no paper presents convincing evidence to prove (or strongly support) any of these three explanations (or others). Therefore, it is necessary to start looking for alternative explanations. Under this logic, one of the contributions of our paper is to present a comprehensive picture of the most relevant institutional characteristics of the fiscal agencies, an analysis through which we can identify inconsistencies with existing theories and spot relevant trends from which researchers can build a more accurate causal mechanism. Hence, a good theory should take into considerations the weakness detected here and explain why some countries established their agencies well before the EU required its creation or why did some countries preferred stronger agencies or a particular institutional model.

Tesche (2019a and 2019b) explores the theoretical models behind IFIs and the role played by the EC, ECB and IMF in the creation of these agencies. Notably, for different reasons each of these institutions promoted a different model of fiscal agency based on the type of delegation they preferred, i.e. the European Commission promoted the so-called trustee model, the IMF an orchestrator model, and the ECB preferred the trustee model. Table 1 summarizes the main characteristics of each one.

Table 1: Summary of the theoretical models promoted by the international actors

Model of IFI	Characteristics	Proponent	Main goal of proponent
Agent	The IFI's mandate should be limited to monitoring compliance with fiscal rules and assessing macroeconomic forecasts closely controlled by the government. Little independence, limited mandate and little public knowledge.	European Commission (EC)	Improve compliance and increase local ownership of fiscal rules without jeopardizing the EC's monopoly as the interpreter of fiscal rules
Trustee	A highly independent IFI that has powers to establish a certain budgetary objective and that could even make binding decisions on fiscal policy. High level of independence, broad mandate and high public awareness.	European Central Bank (ECB)	Anchoring monetary dominance more firmly in the EMU governance and avoiding negative spill-over effects of fiscal waste.
Orchestrator	A highly independent IFI that indirectly influences fiscal policy by supporting intermediaries and reducing informational asymmetry, but without direct control over fiscal instruments. High level of independence, high level of access to information and high level of public knowledge.	International Monetary Fund (IMF)	Guarantee financial stability and ensure the return of financial assistance by strengthening fiscal discipline.

Source: own elaboration based on Tesche (2019b)

Obviously, none of these models exists in their pure form. Hence, fiscal agencies tend to present mix traits and combine characteristics of the three. However, the fact that international organisations promoted different models is not only useful to explain the choice for a certain institutional model in a country, but also to understand what is behind the indexes used to measure the level of independence or strength of fiscal agencies. Thus, these indexes can be conceived as tools used by international organisations to incentivize countries to adopt their preferred model. As we will explore later on, this may explain part of the differences between the existing metrics.

3.3 Independent fiscal agencies in the EU governance framework

The EU legal framework that establishes the requirements regarding the independent fiscal institutions is contained in three norms: EU Directive 2011/85, the Treaty on Stability, Cooperation and Governance (TSCG), and Regulation 473/2013. Although there are some common basic requirements, this set of rules were intentionally open in terms of organization and structure. Thus, they allowed Member States to accommodate their already existing institutions or to design the new agencies in the way they preferred, which resulted in a considerably large cross-country variation in terms of institutional design, mandate and strength.

The first of these norms – EU Directive 2011/85 – is part of the so-called Six-Pack, a legislative packaged introduced to increase fiscal and macroeconomic coordination and foster compliance with the EU fiscal rules. The directive includes several references to the need or desirability that independent bodies conduct audits, prepare forecasts or supervise the compliance of fiscal rules. More importantly, in its Article 6, section b, it establishes that country-specific numerical fiscal rules shall contain specifications as *‘the effective and timely monitoring of compliance with the rules, based on reliable and independent analysis carried out by independent bodies or bodies endowed with functional autonomy vis-à-vis the fiscal authorities of the Member States’*.

The second one, the TSCG, is *de iure* an intergovernmental treaty situated outside of the EU regulatory structure but *de facto* a key element of the EU macroeconomic architecture. The treaty, which binds all Eurozone countries and those Member States that voluntarily subscribe it, was designed to add rigidity to the provisions established in the Six-Pack and sets the fiscal rules that the governments must observe. Regarding the fiscal agencies, the Article 3.2 establishes that the contracting parties shall implement the corrective mechanisms agreed on the treaty. Such implementation must be made *‘on the basis of the common principles proposed by the European Commission concerning in particular the nature, the size, and the time-frame of the corrective action to be undertaken also in the case of exceptional circumstances, and the role of independence of the institutions responsible at national level for monitoring compliance with the rules set out in paragraph 1’*.

The above-mentioned principles are developed in a Communication of the European Commission¹, which is prepared *‘As a part of the implementation of the TSCG’*. This document sets out the tasks that should be assigned to the fiscal agencies and the organization

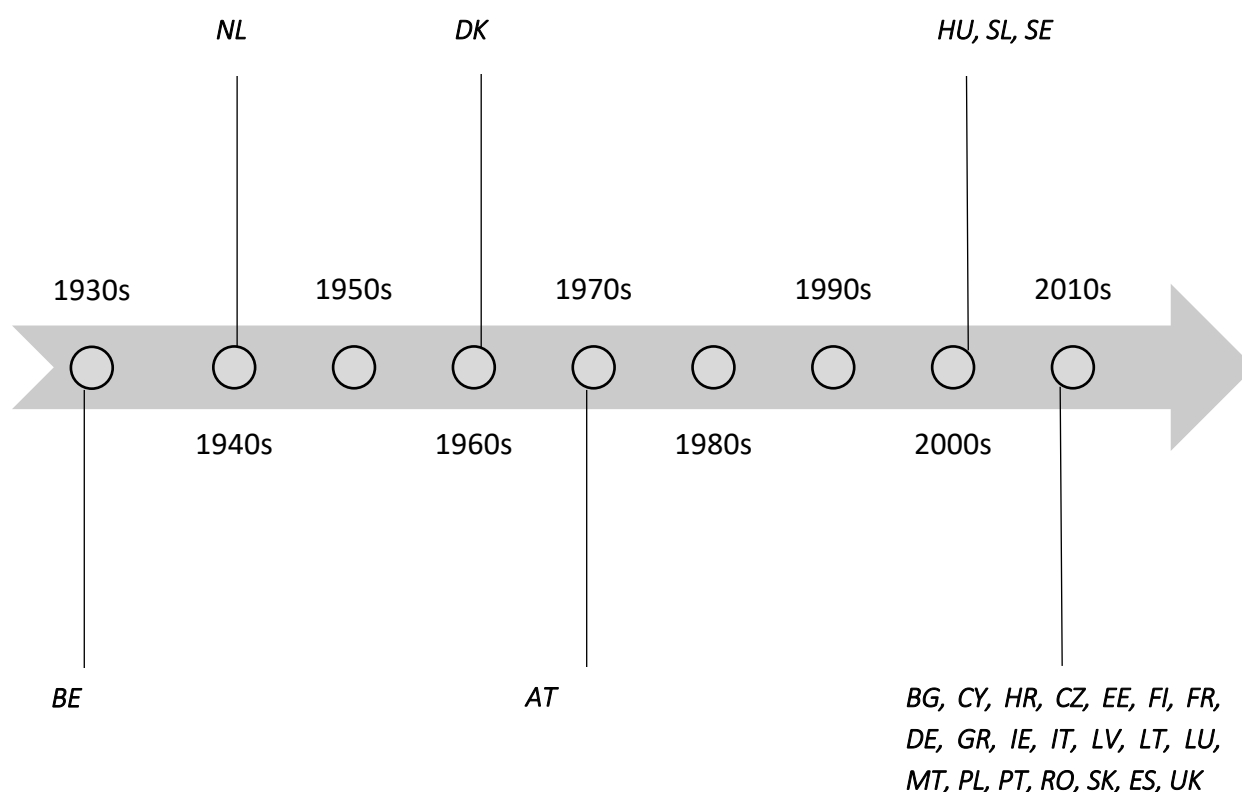
¹ Communication from the Commission “Common principles on national fiscal correction mechanisms”, COM(2012), 342 final. Brussels, 20.06.2012.

requirements that should be met. Scholarly literature has totally overlooked this document, to the point that only Jankovics and Sherwood (2017) refer to this Communication. The document's conceptual depth and richness is vital to understand the principles behind the model proposed by the Commission. Thus, these agencies should be expected to evaluate the functioning of the correction mechanisms, the compliance with the fiscal rules, and provide public assessment of the circumstances that trigger the activation of such mechanisms (or the application of exceptions). To guarantee their influence, the Commission proposes to apply the principle of '*comply or explain*', which would mean that the governments could not simply ignore the recommendations or questions posed by these agencies. Finally, regarding the organization, the text says that the institutions must be consistent with the existing institutional design and the administrative particularities of each country, highlights the importance of guaranteeing functional autonomy, and emphasizes the need of good communication with the public.

The third norm, regulation 473/2013, concentrates the majority of the legal requirements and develops in more depth the IFI's role, expanding on the principles set in the previous document. This regulation is part of the Two-Pack, which followed the line initiated by the Six-Pack and whose goal was to increase fiscal coordination and provide appropriate surveillance mechanisms. The norm lists some of the functions that the independent fiscal agencies could perform such as monitoring the compliance with fiscal rules, assessing the functioning of the corrective mechanisms or the existence of extraordinary circumstances, producing (or endorsing) unbiased forecasts, engage in technical dialogues, etc. However, although this EU regulation imposes legal requirements, it would only have effects over those Member States that are part of the Eurozone.

Regarding the institutional design, the regulation accepts that such design should take into account the particularities of each Member State. For instance, a country could endow an already existing entity with the autonomy and resources necessary to carry out the required tasks. Consequently, the provisions are quite open in terms of institutional requirements. Some states even possess more than one fiscal agency due to the pre-existence of a multi-agency framework, to the creation of a parliamentary office to act as an additional IFI or to the presence of a regional or sub-national office. Although regulation 473/2013 accepts that more than one institution can be in charge of some of the tasks assigned to fiscal agencies, the norm does not prefer this option and the regulation explicitly states that excessive institutional fragmentation should be avoided. Such ambiguity was intentional and permitted significant differences across countries, as we will explore later on. However, regardless of these differences, all institutions must be granted a high degree of autonomy by a binding norm, create procedures for the nomination based on competence, count with adequate resources, etc.

Figure 1: Decade of creation of the first fiscal agency in each country



Source: own elaboration

The EU framework was essential for the establishment of these institutions across several EU countries. Thus, the vast majority of these institutions were created immediately after the approval of the EU regulatory framework or during the years in which such framework was already under development. Not only that, but the EU governance requirements are also responsible for the rise in the number of these institutions, i.e. today EU fiscal agencies represent over two thirds of the total count in the world (Beetsma et al., 2019). Figure 1 shows the decade of creation of the first fiscal agency in each EU country.

4. The institutional design of European IFIs

In this section, we will examine the main features of fiscal agencies across the European Union. Today 27 out of the 28 EU countries (we include UK in our analysis) have at least one fully functional independent fiscal institution. The only exception is Poland, which does not count with an agency that can be described neither as an independent agency nor as a proper fiscal agency. As a matter of fact, the European Commission has noticed this situation, identifying Poland as the only country without an independent fiscal institutions, flagging the issue on numerous occasions and recommending the establishment of such agency, e.g. in each of its assessments of the Convergence Programmes for the period 2015-2019 and in the Country Specific Recommendations. Poland has an institution, the Supreme Audit Office, which presents some of the traits of a fiscal agency. However, analysts widely agree that it cannot be considered an independent fiscal agency and, therefore, most of the studies exclude it.

Nonetheless, since the Commission includes this institution in its own dataset (European Commission, 2020c) we will incorporate to the analysis with caution.

The data used in our analysis is a compilation of the data generated by several sources, among which the works of the IMF (IMF, 2016; Debrun et al., 2017), the OECD (2019), and the European Commission (2020c) outstand. These institutions have collected a great number of indicators, some of which are very similar or complement each other well. Additionally, we will also rely on some indicators developed by Horvath (2017), Beetsma et al. (2019) and Claeys (2019). Finally, we have also consulted primary sources such as the websites of the agencies and reports from the EU IFIs network or the institutions themselves.

After examining these sources, we identify 38 IFIs across all EU countries, including the UK and counting the Polish Supreme Audit Office (marked with an asterisk). The complete list of fiscal agencies can be found in Table 2, which also displays the coverage of the datasets developed by the European Commission, the IMF and the OECD. The last column of the table shows the list of the current members of the EU Network of Independent Fiscal Agencies. As it can be seen in the table, the list compiled by the European Commission is the most exhaustive of the four.

Some countries have more than one agency to carry out the tasks assigned to the IFIs. This tend to be the case when the country already had one institution before the development of the EU governance framework, when there is a supplementary agency linked to the parliament or when there is a sub-national agency. In these cases, the distribution of tasks and the inter-institutional cooperation gains relevance to assess the effectiveness of these agencies.

Several factors explain the differences between the lists used by each source, such as the criteria used to include fiscal agencies, data availability, the selection of only one agency per country, etc. In this paper, we take a comprehensive approach, examining and comparing all the available information on these agencies with the goal of depicting the most accurate picture possible. Thus, one of the contributions of this paper is that it compiles, examines and puts into perspective all the available indicators on these agencies. Such a detailed comparison has not yet been done in a systematic way and it can be useful to obtain a more complete profile of the fiscal agencies.

Table 2: List of independent fiscal agencies in Europe included by different institutions

Country	Agency	EC	IMF	OECD	EUN IFIs
Austria	Fiscal Advisory Council	X	X	X	X
	Parliamentary Budget Office			X	
	Austrian Institute of Economic Research	X			
Belgium	High Council of Finance	X	X	X	
	Federal Planning Bureau	X	X		
Bulgaria	Bulgarian Fiscal Council	X			X
Croatia	Fiscal Policy Commission	X			X
Cyprus	Cyprus Fiscal Council	X	X		X
Czech Republic	Czech Fiscal Council	X		X	X
Denmark	Danish Economic Council	X	X	X	X
Estonia	Estonian Fiscal Council	X	X	X	X
Finland	Independent Monitoring and Evaluation of Fiscal Policy	X	X	X	X
	Function – National Audit Office of Finland				
	Economic Policy Council			X	X
France	High Council of Public Finances	X	X	X	X
Germany	Independent Advisory Board to the Stability Council	X	X	X	X
Greece	Parliamentary Budget Office		X	X	X
	Hellenic Fiscal Council	X		X	X
Hungary	Fiscal Council of Hungary	X	X	X	X
Ireland	Irish Fiscal Advisory Council	X	X	X	X
	Oireachtas Parliamentary Budget Office			X	
	Parliamentary Budget Office	X	X	X	X
Latvia	Fiscal Discipline Council	X	X	X	X
Lithuania	National Audit Office	X	X	X	X
Luxembourg	Conseil National des Finances Publiques	X	X	X	X
	National Institute of statistics and economic studies of the Grand Duchy of Luxembourg	X			
	Malta Fiscal Advisory Council	X	X		X
Netherlands	CPB Netherlands Bureau for Economic Policy Analysis	X	X	X	X
	Dutch Council of State – Raad van State	X	X		X
	<i>Supreme Audit Office*</i>	X			
Poland	Portuguese Public Finance Council	X	X	X	X
Romania	Romanian Fiscal Council	X	X		X
Slovakia	Council for Budget Responsibility	X	X	X	X
Slovenia	Slovenian Fiscal Council	X		X	X
	Institute of Macroeconomic Analysis and Development	X			X
Spain	AIReF – Independent Authority for Fiscal Responsibility	X	X	X	X
Sweden	Swedish Fiscal Policy Council	X	X	X	X
United Kingdom	Office for Budget Responsibility	X	X	X	X
	Scottish Fiscal Commission			X	

Source: own elaboration

However, we also innovate with respect to the original data in, at least, three significant ways. First, we compile, cross check and compare the data from the different sources. Second, we extend the codification of some variables to countries that were not originally covered by a certain dataset, providing that it is possible to apply the original criteria without compromising

the comparability of the data. Thirdly, since part of the information was coded in a format that did not allow a systematic comparison, we recode the information (e.g. into dummies, categorical variables, etc.). For instance, in the case of the data extracted from the OECD the schematic system used – ticking or leaving boxes empty – was modified to make it apt for a quantitative codification. In addition, due to the nature of such codification, some indicators merge information within the same variable or include many exceptions as a footnote. Therefore, some changes were implemented in order to simplify the codification. More details can be found in the annex.

4.1 Characteristics of the institution

We describe the main institutional characteristics along organizational and resources criteria.

4.1.1 Organizational criteria

We have distinguished three organizational criteria, being the first the institutional model that the organizations have adopted. Thus, the OECD classifies fiscal agencies in three categories based on their *institutional design*, i.e. fiscal council, audit office or parliamentary office. The first one refers to a ‘pure’ fiscal agency, a standalone institution separated from other bodies. The second occurs when the agency is organised within an audit institution or such institution is entrusted with carrying out the tasks of a fiscal agency. Finally, in the case of a parliamentary budget office, the fiscal agency is formally linked to the parliament and tends to be conceived to provide support and advice to that institution.

Table 3 shows the distribution of fiscal agencies according to their institutional model. The table includes all the agencies identified (except the Polish one) for which we have information, including those cases in which there is more than one agency per country (see the list in table 2). The table shows that the vast majority of the agencies have taken the form of fiscal council, which is the model used by the oldest agencies, i.e. the Austrian FISK, the Belgian HRC/CSF and the FPB, the Danish DORS and the Dutch CPB. Hence, the EU framework does not seem to have modified the predominant model.

This trend is even clearer if we were to exclude secondary fiscal agencies, that is, those that play a minor role within their system or are overshadowed by another agency. Thus, if we focus on primary agencies in each country, 23 out of the 28 EU countries count with a fiscal council as their main agency, three with an Audit Office and one with a Parliamentary office. Among the later, only 1 out of the 5 parliamentary offices is the main agency in its national system – the Italian *Ufficio Parlamentare di Bilancio* (UPB). Additionally, if we included the Polish agency, the number of agencies linked to Audit Offices would increase up to four. However, this should not be taken as an indication of homogeneity among countries. On the contrary, as we will see, even within those agencies sharing the same institutional traits there is a lot of variation regarding their tasks, level of independence, resources, etc.

The second organizational criteria is the legal basis creating these agencies and here the trend is very similar. Thus, the majority of the agencies for which we have data are concentrated around one option, i.e. 19 agencies were created through what the OECD calls primary legislation (or simply legislation). Only four IFIs have a constitutional provision, including the

Hungarian Fiscal Council that is based on a mix of constitutional and primary legislation. Finally, three countries have other type of legal provisions, among which we can include political agreements of the budget committee (Austria), a decree (Finnish EPC), and Ordinance (Sweden). For the remaining 11 agencies, the OECD does not have information.

Table 3: Institutional model and legal basis of the fiscal agencies

Institutional model	Fiscal Council	29	78.37%
	Audit Office	03	8.11%
	Parliamentary Office	05	13.51%
Legal basis	Constitutional	04	14.81%
	Primary Legislation	20	74.07%
	Other	03	11.11%

Source: own elaboration adapted from OECD (2019) and extended for the rest of the cases

Another significant institutional dimension is the leadership and the process that leads to its appointment. The leadership of these agencies is important for several reasons. Firstly, it permits to assess the level of professionalism (as opposed to patronage) and autonomy of the organisation. Thus, regardless of specific design, the appointment of technocratic bodies tends to involve procedures that seek to reduce the influence that other institutions may exercise over the agency and avoid its politicization (longer terms, reinforced majorities, support from several institutions, etc.) Secondly, because the selection process can give us an indication of who is the principal of the agency's leadership, i.e. who can try to influence the agent (the leadership). Thirdly, the amount of input that parliaments and other stakeholders can offer during the process could increase the legitimacy of the agency. Similarly, the procedures followed during the selection process may give the leadership a chance to engage with stakeholders and present their plan, providing an opportunity to build accountability mechanisms and gain additional legitimacy. Finally, because there is a significant body of literature dedicated to study how the composition of the leadership and the decision-makers' background can influence policy outcomes (Adolph, 2013; Hayo and Neumeier, 2014). Thus, a demanding nomination process may indicate a well credential or well-valued background, a dose of policy entrepreneurship and some skills to gain support from relevant stakeholders.

Table 4 shows the characteristics of the leadership for 27 agencies from 22 countries. As it can be seen in the table, only six of the agencies have an individual leadership (the Austria PBO, the Spanish AIREF, the Finnish NAOF, the Irish PBO, the Lithuanian BPMD and the Dutch CPB), while the remaining 21 have a collective leadership. If we look at the time commitment of the leadership, eight have a full-time commitment (the six agencies previously mentioned plus the Italian UPB and the Czech CFC), 13 a part-time leadership and six have a mix commitment.

The appointment process also presents a lot of variation across countries. Thus, 19 agencies have a nomination or short-listing system for the selection of the leaders, while in eight of them the leaders are appointed directly. For those cases where the leader is directly appointed, we can distinguish two types of cases. In some countries, the agency is chaired by a civil servant, for instance the HCFP (FR) is chaired by the First President of the Court of Auditors and the department within the NAOF (FI) that acts as an IFI is chaired by a civil servant appointed by the Auditor General. In other cases, the government simply appoints the chairperson, e.g. in the Irish IFAC or in the Austrian FISK.

Among those 19 that count with a nomination or short-list process, the nomination comes from the executive in six of these cases, including the Dutch CPB and the Spanish AIREF. The parliaments nominates the candidates in another three countries – the Italian UPB, the Czech CFC and the Greek PBO –, while In the case of the Danish Economic Council the incumbents make the nomination. In six cases, it is a range of stakeholders who nominates the leadership and, finally, in five of them the positions are open to competition, subject to meeting some requirements. The sum of the different alternatives is 21 instead of 19 (the number of cases) because the Czech Fiscal Council is included under three categories (Executive, Parliamentary and Range of stakeholders nomination).

Regarding the final appointment, the role of both the governments and the parliaments is reinforced. Thus, the executive is in charge of the final appointment in 12 cases and the parliament in another seven. Additionally, in five cases the candidates need to obtain a second approval before the final appointment, e.g. the Spanish AIREF, the Hellenic Fiscal Council, the Letonian Fiscal Discipline Council, the British OBR and the Scottish SFC. This tends to be the case when the Parliament needs to give consent to the appointment.

Table 4: Nature of the leadership and appointment process

Nature of leadership	Individual	6	22.22%
	Collective	21	77.78%
Leadership commitment	Full-time	8	29.62%
	Part-time	13	48.15%
	Both	6	22.22%
Type of selection process	Short-listing/Nomination	19	70.37%
	Appointment	8	29.63%
Method of selection	Executive nomination	6	28.57%
	Parliament nomination	3	14.29%
	Incumbent nomination	1	4.76%
	Range of stakeholders nomination	6	28.57%
	Open competition	5	23.81%
Institution in charge of final appointment	Executive	12	44.44%
	Parliament	7	25.93%
	Other institution	3	11.11%
	Range of stakeholders	5	18.52%
Secondary approval of final appointment	Needed	5	18.52%
	Not needed	22	81.48%

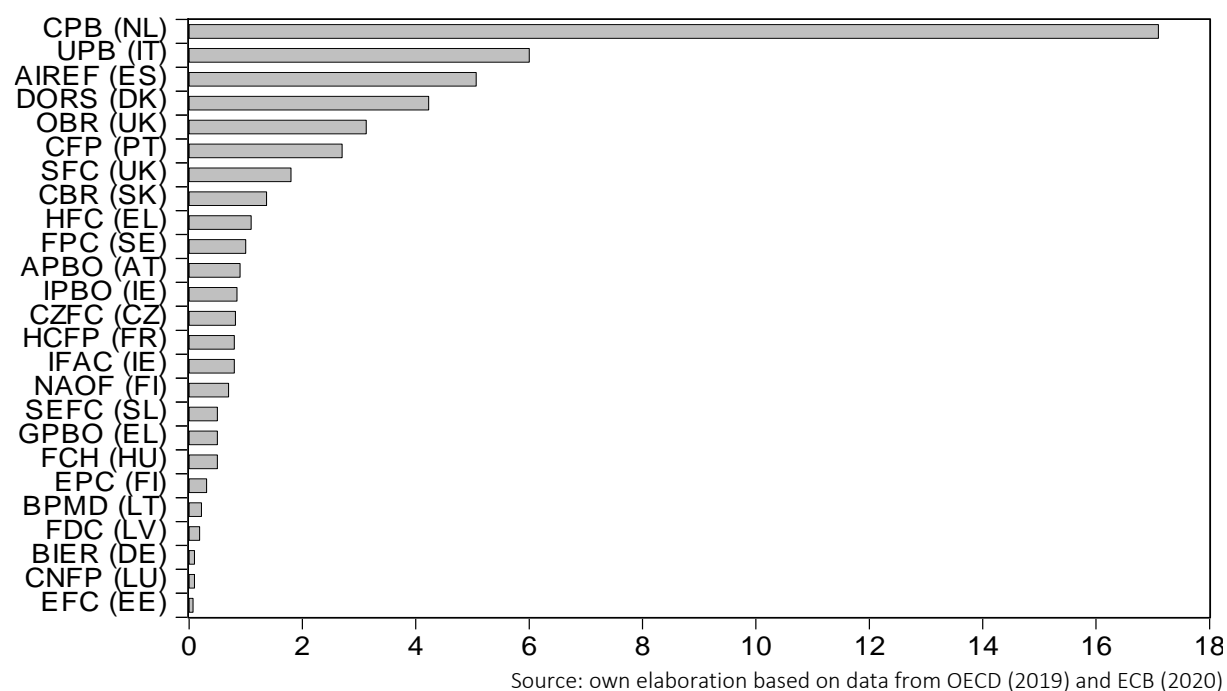
Source: own elaboration based on OECD (2019)

4.1.2 Resources criteria

The resources of an organisation are a key variable to assess the capacity to effectively control the executive and carry out the different tasks assigned to the fiscal agencies. Moreover, as in any bureaucratic organisation, the resources can be taken as a proxy of the influence and power of the organisation (Niskanen, 1971; Meier, 1980). Thus, it is expected that those institutions with more resources perform a wider set of tasks and have more influence within their political systems (Horvath, 2017). Unfortunately, available data either on budgets or on the number of employees of the fiscal agencies are limited. Thus, only a few countries (e.g. Spain, Czech Republic and Ireland) publicly inform on these items. Therefore, we only have data for a single year and for 25 organisation from 21 countries.

Figure 4 presents the data on the budget of the fiscal agencies. The original data comes from the OECD (2019), although we converted the values of those budgets expressed in local currencies into Euros to compare the size of this budget against the other agencies. In order to do this transformation, we use the exchange reference rates provided by the ECB and take the beginning of the budget year as the date of reference.

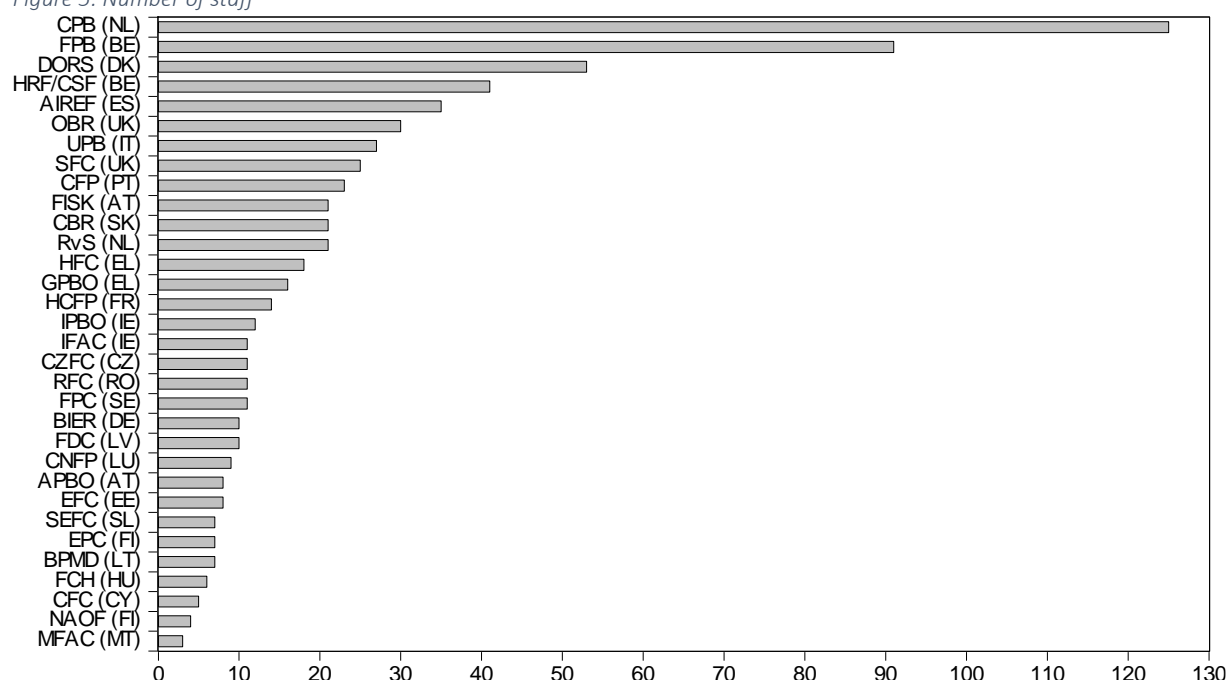
Figure 4: Budget of the independent fiscal institutions in millions of euros



However, even with those limitations, the data show the large variation in terms of resources. Thus, the Dutch CPB emerges as a clear outlier in terms of funding, with a budget of over 17 million Euros. Among the best funded we can also find the AIREF (Spain), the Italian UPB and the Danish Economic Council, all of which surpass the 4 million euros and are well above the average of 2 million (1.41 if we exclude the CPB in the calculation) and the median value (0.82 million). On the other side, the Fiscal Council of Estonia, the German Independent Advisory Board to the Stability Council or the CNFP of Luxembourg have a budget of 100,000 euros or less.

A second dimension of the resources refers to the size of their staff (i.e. the number of employees of each organization). Once again, the information is very limited, but since both the budget and the human resources tend to be stable over time, they provide a good proxy on how well endowed are these institutions. Figure 5 presents the data using the OECD as the primary source and, when not available, it relies on the data from IMF. This allow us to expand the number of countries for which we can offer the information and maximizes comparability with the data on the budgets (which came from the OECD too). In general, the data on the OECD and the IMF do not show large discrepancies regarding the total number of staff (when the same agency is present in both datasets), where minor discrepancies can be attributed to the year of observation or the units taken into consideration in the measurement.

Figure 5: Number of staff



Source: own elaboration based on data from OECD (2019) and IMF (2016)

Regarding the number of staff, we can see how the CPB is again at the top of the list with 121 people in the staff, well above the average of 21.9. It is followed by the Belgium FFB (91), the Danish Economic Council (53), the Belgium CSF (41), the Spanish AIREF (35), both UK agencies – OBR (30) and SFC (25) –, the Italian UPB (27) and the Portuguese CFP (23).

To summarize the characteristics of the EU IFIs, we can say that the majority of them tend to be organized in autonomous fiscal councils, although alternative arrangements are also frequent. Most of them are created and developed through primary legislation, with a few enjoying a reinforced constitutional basis. The average budget of the fiscal agencies is 2 million, with only six agencies surpassing that budget, and the median is slightly above 0.8 million euros. The average fiscal agency counts with 21.9 members in its staff and, again, only six of the agencies in the sample have more personnel. The majority of agencies for which we have data have a collective leadership and with a mix level of commitment in terms of time. Most of them have established an appointment system, in which several institutions and actors play a role. Nonetheless, as we have described above, there is a high degree of cross-country variation

across all dimensions. Such low level of homogeneity is surprising if we consider that all these agencies are part of a common governance framework and were designed following a common set of principles and during the same period –in the majority of the cases-.

Due to space constraints and since we are more interested in having a comparative perspective, we do not examine the cases on a country basis. However, the interested reader can check Von Trapp et al. (2016), who covered 18 countries in their report for the OECD, Lebrun (2009) or Raudla and Douglas (2020). Additionally, Bos and Teulings (2012) examine in depth the case of the CPB, which as we have already seen is a clear outlier on some dimensions (e.g. resources criteria). Although we do not pursue this approach, our analysis can also be useful to guide the case selection of future small N designs or case studies. Thus, it provides a comprehensive depiction of the main institutional characteristics of IFIs, facilitating the identification of research questions and the cases that may fit better the research design.

4.2 Lies, damned lies and indexes. A tale of independence and strength in fiscal agencies

After having a better understanding of the pattern of creation and organization of the IFIs, we turn now to discuss their level of independence and strength. The political economy literature favors these agencies arguing that a strong and autonomous organization would present several advantages in the management of fiscal policy (see section 3.1 above). The crucial factor for such a positive role is IFIs' level of independence and strength, even if they do not have all the prerogatives that the theoretical models proposed.

The above-mentioned legal framework also requires a certain level of independence, for instance in the TSCG and in Regulation 473/2013. Moreover, the Commission in the 'Communication on the Common principles on national fiscal correction mechanisms' – COM(2012) 342 final – defends that national legal provisions should guarantee: *'i) a statutory regime grounded in law; ii) freedom from interference, whereby the above bodies shall not take instructions, and shall be in a capacity to communicate publicly in a timely manner; iii) nomination procedures based on experience and competence; iv) adequacy of resources and appropriate access to information to carry out the given mandate.'* However, as we explained before, the general principles leave a lot of room for interpretation and it allows for several institutional arrangements, without imposing many specific requirements.

When discussing the independence of bureaucratic agencies, we should distinguish, to the very least, two levels or dimensions. On the one hand, legal or formal independence refers to whether the institution responds or is subject to the control of another institution. Control, of course, differs from having links with other institutions. As we described above, many fiscal agencies are formally part or organized around an Audit or Parliamentary Office. What matters, though, is whether these institutions can be legally autonomous through a specific statutory regime that guarantees that they will not receive orders, nor suffer interferences regarding their work or conclusions. Due to the EU and TSCG requirements, all the institutions need to meet a minimum level of legal independence. Thus, as we already mentioned, only Poland does not comply with this requirement according to the Commission.

The second dimension of the independence of an agency is *functional*. This refers to the *de facto* autonomy of the institution and to whether the agency is capable of effectively carrying out its tasks without being conditioned by other organizations. Several factors can be indicative of functional autonomy such as the amount of funding, whether the budget depends on the decision from another institution that can modify it unilaterally, if the agency counts with a multiannual budget framework, if it has autonomy on hiring, if it can decide when to open a report, or which methodology wants to apply.

Both dimensions have abstract elements, which means that measuring the level of independence of an institution like a fiscal agency is a complex task and there is no consensus on how this should be done. Additionally, the novelty of many of these agencies renders the issue even more complex. These problems are not very different from those experienced in the case of the central banks, where there was a methodological discussion on how to measure the independence of central banks. Ultimately, the index developed by Cukierman et al. (1992) ended up becoming the most accepted metric.

Closely related with the level of independence, we find the concept of strength. The strength of an agency refers to the amount of resources, the breadth of the mandate and all those factors that determine the level of influence the agency has. Thus, the strength captures the amount of influence the agency have to affect the outcomes. Therefore, the strength and influence of an institution can be measured by the size of the budget and the staff, the number and importance of the tasks assigned to it, its ability to communicate its message and to frame the terms of the public debate, etc. As a result, the concept partially overlays with some of the indicators considered in the case of functional independence, but it goes one-step further by including additional dimensions. This implies that the indexes and metrics designed to measure one, may be partially capturing the other and can lead to incorrect interpretations.

Regarding the case of fiscal agencies, although there is no consensus on the metric yet, there have been several attempts to develop a measure of independence or strength of these institutions. These efforts have come mostly from international organizations and European institutions. Among them, we can highlight the SIFI Index developed by the European Commission and the SEC Index developed by researchers from the IMF. However, we should keep in mind that these indexes capture several features at the same time. Thus, the indexes include elements of independence (legal and functional), strength and tasks carried out by the fiscal agencies.

IMF researchers (Beetsma et al., 2019) developed the SEC Index – Signal Enhancement Capacity Index – that takes into account four dimensions: the extent of mandate, the ability to communicate with the public, the possibility to interact with stakeholders during the budget process and independence of politics. On the other hand, the European Commission (2020c) developed the SIFI Index – Scope Index of Fiscal Institutions. In this case, the Index weighs the tasks carried out by fiscal agencies by a legal force coefficient and the importance assigned to those tasks in the EU governance framework.

Since international organizations advocated for different models of fiscal agencies based on different alternatives of delegation (see section 3.2 above), the measures these institutions use to assess the level of independence or strength of the fiscal agencies consequently are biased

to capture the ideal of the model they proposed. Thus, for some authors (Tesché 2019b), these indexes are a tool to incentivize countries to implement reforms that bring these agencies closer to their preferred model.

In addition to these indexes, the OECD also includes in its dataset a series of questions related to the independence of fiscal agencies. This could be a better measure of pure independence, separated from additional considerations on the strength of these organizations. However, unlike the European Commission or the IMF, the OECD does not develop a measure to quantify the level of independence in its dataset. On a separate basis, Von Trapp and Nicol (2018) developed an index of IFI independence combining several indicators from different dimensions of the OECD dataset. Nonetheless, the disaggregated data from that index was not available. Therefore, in order to create some sort of metric, we transform these binary (yes or no) questions and then aggregate the number of responses. Once we have completed this process, we obtain a scale of 0-9² that we then convert into a 0-100 index to allow for a clear comparison against the other two measures.

The OECD original classification is a filled circle when the answer to the question is a clear ‘yes’, an empty circle when is a clear ‘no’ and a semi-filled circle when some exception applies. Consequently, we award a 1 to the filled circle and a 0 to the empty circle. In those cases with a semi-filled circle, we review the explanations provided in the footnotes to decide whether to award a 0.5 (when the condition is partially met, but not completely) or a 1 when the condition is met and the additional explanation is just to clarify a technical or formal detail (more information in the annex).

Table 5 presents the results of the three indexes and the ranking derived from them. Due to the novelty of the agencies and the indexes, the data available is limited. Thus, the SEC and the OECD indexes are the result of a single year observation and there is no historical series available on them. In the case of the SIFI Index, the European Commission has information for a period that goes from 2014 to 2018. However, the variation across time is limited to only a handful of cases, while the majority of the scores remain the same across the years. Thus, the values seen in table 5 are the result of the period average for each institution. Additionally, the coverage is also different in each source, which in turn leads to some agencies receiving scores in all indexes, while others are only present in one or two of them.

Within each index, we see a considerable cross-country variation. This is, to a certain extent, surprising if we consider that we are examining similar countries and that they are supposed to operate under a set of common EU principles. Despite of this, the SIFI Index ranges from 17.50 to 77.14, with an average of 48.32 and a median of 46.88. Hence, the distance between the best and worst performers is considerable. However, a closer look can explain some of these results. Thus, the lowest score is assigned to the Supreme Audit Office of Poland, which as we explained earlier on can hardly be considered an (independent) fiscal agency.

In addition to this, we also find at the lower end of the index several organizations that belong to countries where there is a second institution, e.g. the Luxembourgish STATEC, the Slovenian

² One of the questions “Can the term be renewed?” is not applicable in the case of the Finnish NAOF. Thus, in this case the scale here would be 0-8, which is then converted into a 0-100 scale to make it comparable.

IMAD, both Belgium agencies, the Dutch RvS and the Austrian WIFO. In almost all these cases, another agency receives a higher score. This could happen because the index penalizes those countries that split the tasks between more than one agency or because some of these organizations were not designed to be fiscal agencies but assumed part of their tasks (STATEC or WIFO).

In order to see how much of a role this last issue plays, we can use the SIFI Country Index. This variation of the index estimates the scores at a country level rather than at a fiscal agency level. After incorporating this dimension, the average of the index raises to 55.24 and the median to 53.10. More importantly, the Austrian (83.57), Belgian (60), Luxembourgish (63.21) and Dutch (70.53) scores improve considerably. Thus, only the Slovenian score remains lower than the Index average and lower than some of the disaggregate scores. However, this is the result of taking the average of the four-year period, if we were to use to value for the last available year of the SIFI country index (2018), the score would be 59.46.

On the other hand, the SEC Index ranges from 34 to 84 points, with an average of 62.82 and a median of 66. Here, we also observe a considerable cross-country variation. Among the worst performing agencies, we can find the German BIER, the Luxembourgish CNFP and the Belgium HRF/CSF, none of which reach 50 points. On the other end of the spectrum, we find the British OBR, the Portuguese CFP or the Latvian FDC with values close to 80.

Finally, in the case of the OECD Index the values range from 55.56 to 100. The values are much more concentrated, with 10 out of the 23 agencies of the sample scoring over 75. The average of the OECD Index is 76.44 and it has a median of 72.22. This is a result of a much more limited operationalization, which only includes leadership independence, operational independence and financial independence. Hence, without other dimensions interfering in the measurement, this index could be considered the most straightforward and simple of the three.

Table 5: Level of independence of the fiscal agencies according to the different indexes

Agency acronym	Country	SIFI Index	Rank	SEC Index	Rank	OECD Index	Rank
FISK (AT)	Austria	63.57	8	70	6	66.67	8
APBO (AT)	Austria					61.11	9
WIFO (AT)	Austria	32.50	25				
HRF/CSF (BE)	Belgium	30.00	27	44	15	55.56	10
FPB (BE)	Belgium	30.00	27	68	7		
BFC (BG)	Bulgaria	54.24	11				
FPC (HR)	Croatia	25.00	28				
CFC (CY)	Cyprus	64.91	7	67	8		
CZFC (CZ)	Czech Republic	51.25	14			88.89	3
DORS (DK)	Denmark	46.25	18	60	12	77.78	5
EFC (EE)	Estonia	51.43	13	73	5	66.67	8
NAOF (FI)	Finland	38.57	24	74	4	75.00	6
EPC (FI)	Finland					61.11	9
HCFP (FR)	France	46.43	17	68	7	61.11	9
BIER (DE)	Germany	51.96	12	34	17	88.89	3
GPBO (EL)	Greece					72.22	7
HFC (EL)	Greece	48.57	15			61.11	9
FCH (HU)	Hungary	40.18	22	60	12	72.22	7
IFAC (IE)	Ireland	68.21	5	65	10	83.33	4
IPBO (IE)	Ireland					83.33	4
UPB (IT)	Italy	74.29	2	60	12	72.22	7
FDC (LV)	Latvia	46.88	16	79	2	88.89	3
BPMD (LT)	Lithuania	57.59	9	66	9	77.78	5
CNFP (LU)	Luxembourg	43.21	20	35	16	72.22	7
STATEC (LU)	Luxembourg	20.00	29				
MFAC (MT)	Malta	77.14	1				
CPB (NL)	Netherlands	39.29	23	62	11	88.89	3
RvS (NL)	Netherlands	31.25	26	54	13		
SAO (PL)	Poland	17.50	30				
CFP (PT)	Portugal	66.43	6	78	3	88.89	3
RFC (RO)	Romania	69.29	3	53	14		
CBR (SK)	Slovakia	44.64	19	68	7	72.22	7
IMAD (SL)	Slovenia	20.00	29				
SEFC (SL)	Slovenia	55.18	10			94.44	2
AIREF (ES)	Spain	68.93	4	70	6	66.67	8
FPC (SE)	Sweden	42.86	21	53	14	72.22	7
OBR (UK)	United Kingdom	77.14	1	84	1	100.00	1
SFC (UK)	United Kingdom					94.44	2

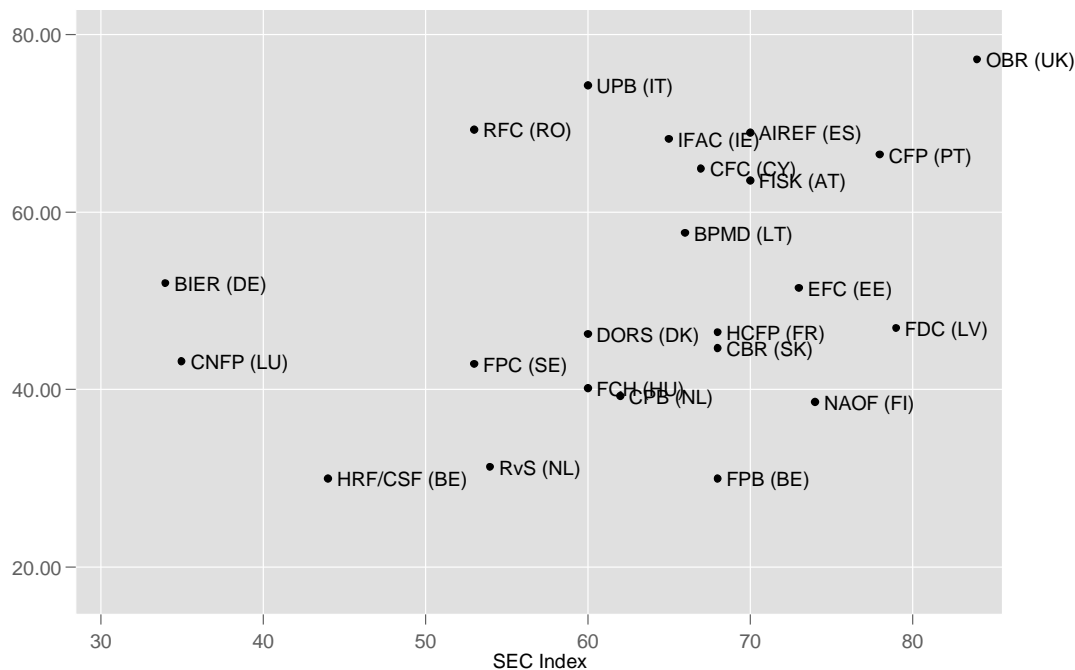
Source: own elaboration

We can also see a considerable variation across the three indexes, both in terms of ranking and in terms of scores. Figures 6, 7 and 8 allow us to visualize more clearly, how agencies perform in different indexes and how these measures correlate with each other. Due to the variation in the coverage of each dataset, the sample of countries that can be included here is reduced to 23, 22 and 19 respectively.

Thus, figure 6 plots the SEC Index against the SIFI Index. The correlation between the two is relatively low (slightly above 0.30), which derives from the fact that they are ultimately measuring different dimensions and assigning more or less weight to certain elements. Ultimately, each index was designed thinking in a different ideal model of agency. Consequently, we find a few institutions that do quite well in one index but poorly in another. For instance, the Belgian FPB scores 68 in the SEC index but only 30 in the SIFI index. Similarly, the Finnish NAOF receives 74 points in the SEC index but less than 40 in the SIFI index. In this group we could also include the Romanian RFC, which scores 69.29 points in the SIFI Index (being among the top three institutions), but merely 53 in the SEC Index. Even without being excessively low, it is well below the average and contrast with the good results in the European Commission's Index.

In the chart, we can also identify a series of countries that do well in both indexes. Thus, in the top right corner we find the British OBR the Spanish AIREF, the Portuguese CFP, the Italian UPB, the Czech CFC, the Irish IFAC and the Austrian FISK. Among the worst performers, we find the German BIER, the Luxembourgish CNFP, the Belgian HRF/CSF, the Dutch RvS and the Sweden FPC. As we mentioned when we described the individual rankings, the SIFI country index attenuates some of these results, but it is still remarkable that countries like Germany or Sweden count with agencies with such a poor result. In the case of Germany, the results are against the logic that ordoliberal ideas would favor the construction of powerful fiscal agencies and both countries hinders the notion that northern/hawkish country would also support the design of strong and independent agencies.

Figure 6: SIFI Index (EC) vs SEC Index (IMF)



Source: own elaboration

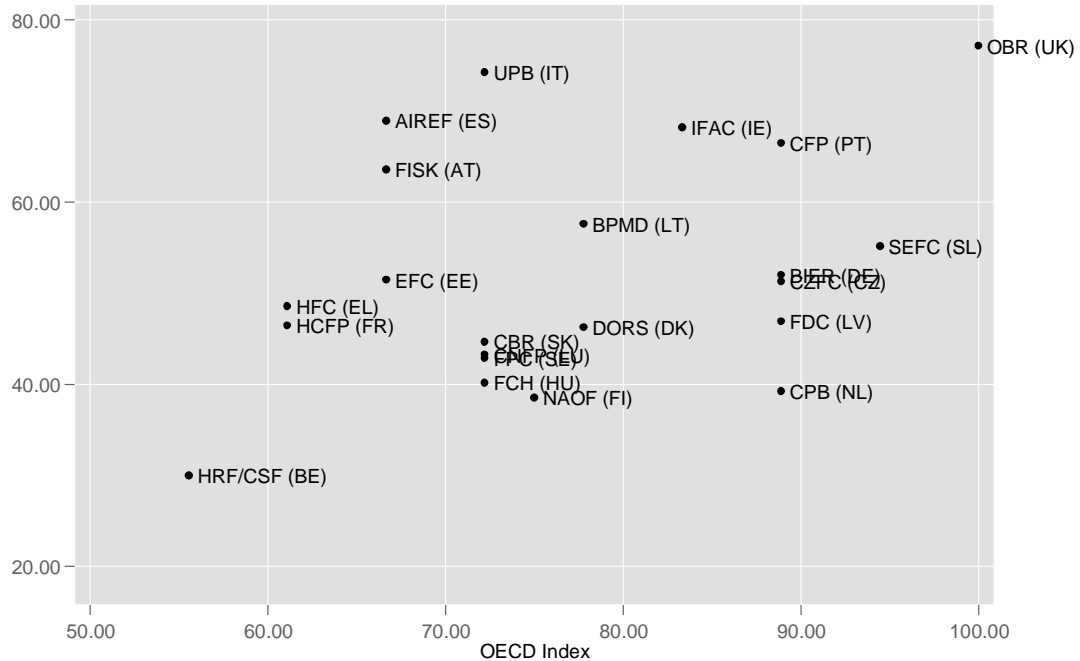
In fact, the north-south cleavage does not seem to be relevant to explain the performance in the indexes. Interestingly, the division old versus new agencies also seems to be irrelevant. Thus, historic agencies such as the Dutch CPB or the Belgium HRF/CSF perform poorly in some indexes, while newly created agencies such as the Spanish AIREF, the Portuguese CFP or the British OBR receive good scores in all of them. This would discard time as a main driver of the institutionalization process or, to the very least, as a necessary condition for such process.

Figure 7 and 8 extend this analysis and compare the SIFI and the SEC Indexes against the OECD Index. In the figures, we can appreciate how the values of the OECD Index are much more concentrated in the range of 60-90. As we said earlier on, these indexes measure to some extent different dimensions, which makes interesting to see which agencies are consistently ranked at the top and at the bottom of them. In this case, a poor performance in the SIFI Index speaks badly about the breadth of mandate assigned to the institutions; a low score in the SEC Index indicates lack of strength, and a poor result in the OECD Index signals issues with the independence of the institution.

In figure 7 we see that the best performers are, once again, the British OBR, the Portuguese CFP and the Irish IFAC. In this case, the Italian UPB, the Spanish AIREF and the Austrian FISK do not perform that well in the OECD, largely due to their low score on the financial independence dimension. On the other hand, the Belgium HRF/CSF, the French HCFC and the Greek HFC would be among the worst performers in both indexes. A similar picture is offered by figure 8, which compares the SEC Index against the OECD Index. Here in the top right corner we find the British OBR, the Portuguese CFP and the Latvian FDC. In contrast, only the HRF/CSF remains clearly positioned at the bottom left corner. Interestingly, the charts show that the German

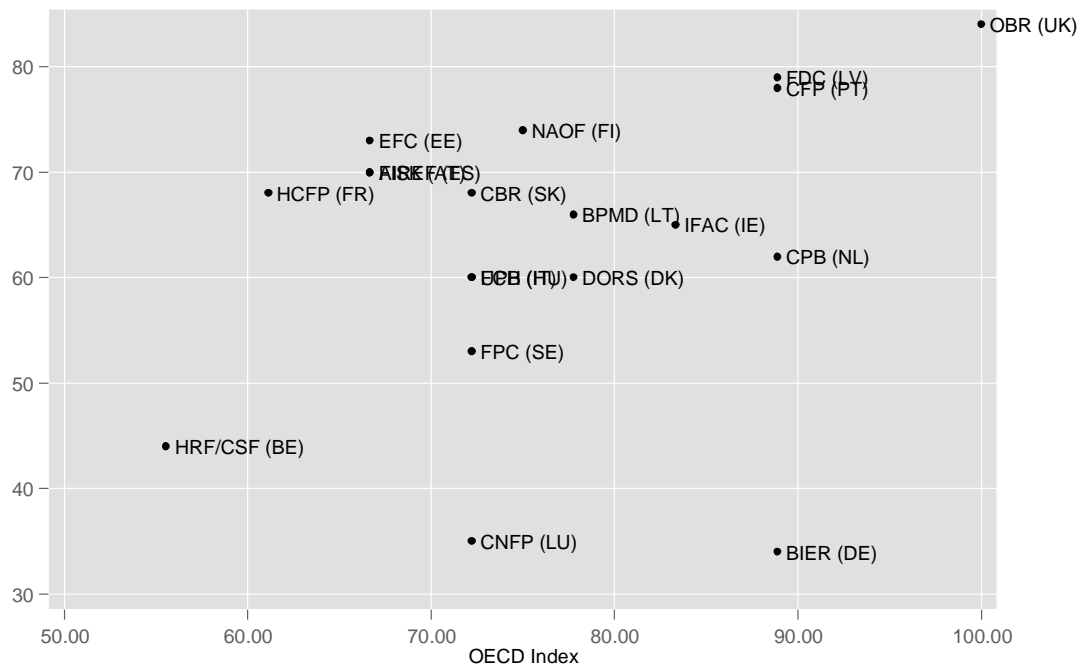
BIER does surprisingly well in the OECD Index but poorly in the others, implying that the agency enjoys a good level of independence, but appears to lack influence and strength.

Figure 7: SIFI Index (EC) vs OECD Index



Source: own elaboration

Figure 8: SEC Index (IMF) vs OECD Index



Source: own elaboration

5. Assessing the role and influence of fiscal agencies within their national systems

In this section, we will examine in more depth the role that IFIs play in the fiscal policy-making process and review the influence they have in a variety of areas. Capturing and assessing the effects of fiscal agencies is quite difficult because these institutions tend to play an indirect or advisory role in fiscal policy-making. This means that unlike other institutions that produce a policy output that can be directly observed and measured, these agencies tend to engage in activities whose effects are difficult to identify and assess (provide technical advice, prepare forecasts or monitor compliance with fiscal rules). More importantly, part of their influence may be exerted through indirect channels, such as inducing the government to self-restrain, increasing the electoral cost of non-complying with the fiscal rules or improving the information available to the opposition and the public.

As a result, few studies have found robust evidence on the effects of IFIs. Again, the novelty of these agencies plays against this goal due to the data scarcity, the limited period that they have had to consolidate channels of influence and the little experience we have in assessing their effects. However, without such evidence we take the risk of assuming a positive effect or recurring to anecdotic evidence, therefore assuming unproved effects for these institutions. Identifying good practices and optimal institutional traits is essential for consolidating these institutions. As establishing these agencies might come at a democratic cost, it is crucial assessing them and make sure they also provide the expected advantages in terms of policy-making efficiency.

5.1 An agency to do what? The role and mandate of fiscal agencies in the European countries

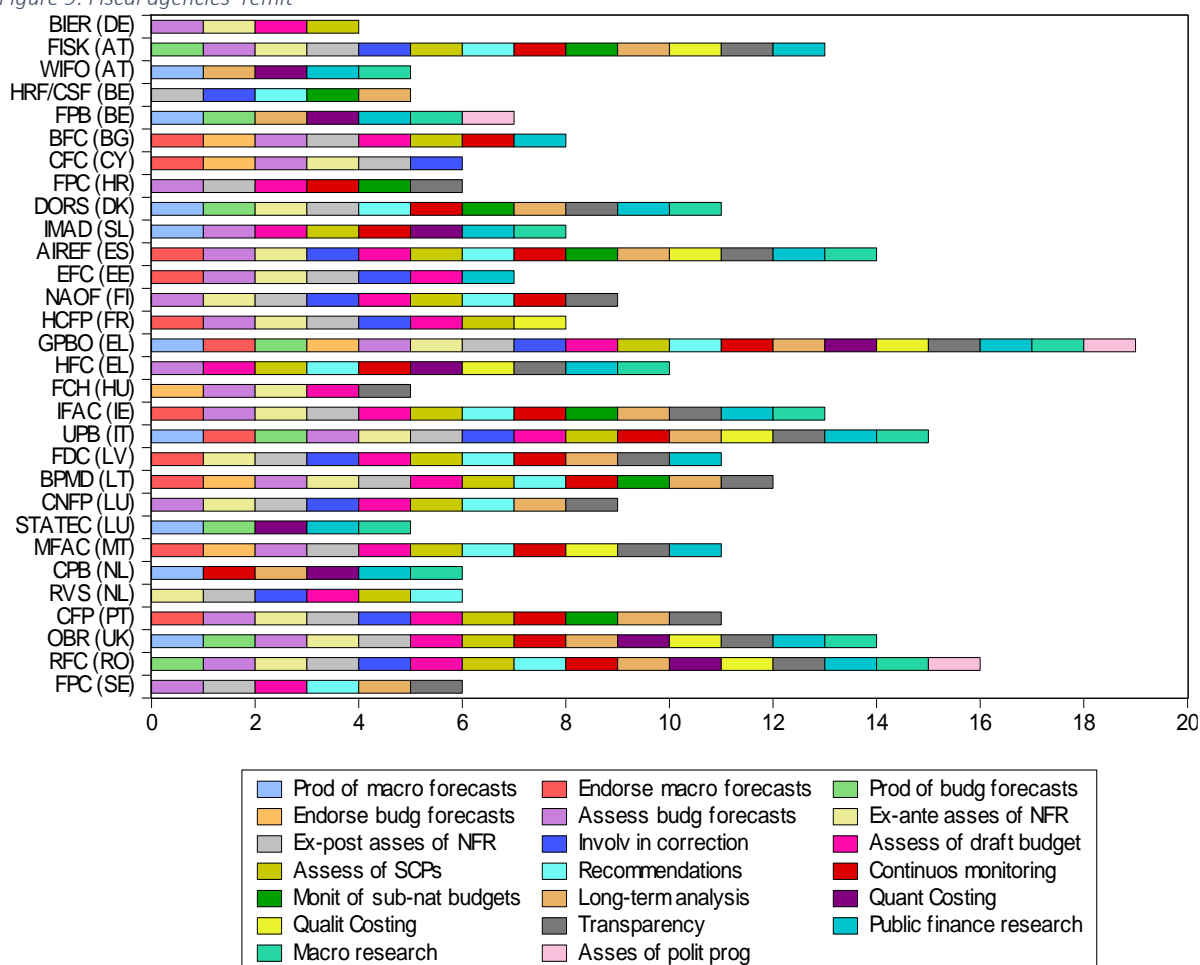
Calmfors (2015) presents a good summary of the reasons to establish a fiscal agency and delegate part of the fiscal policy to it. Thus, these agencies provide better information to the public and to the politicians, reduce information asymmetries between the government and other actors, force the government to use realistic economic forecasts, mitigate common pools problems, raise the reputational cost for the government, and identify and warn against unsustainable trends (see section 3.1 for an in-depth review).

The list of tasks effectively assigned to these agencies can give us an indicator of how well designed they are and how good is the fit between their mandate and the theoretical role proposed in the literature. More importantly, it can give us a first hint of how well can the IFIs achieve these goals. Hence, a clear misalignment between the reasons for which these institutions were created and the tasks entrusted to them in their mandates indicates poor institutional design and, eventually, inefficiency.

There are several ways to count and organize the tasks assigned to the fiscal agencies in their mandates. As a result, the full list and the level of aggregation varies across the different sources. Using data from Jankovics and Sherwood (2017), figure 9 shows the remit of each institution. This allow us to identify those with a broader mandate, among which we can include

the Greek GPBO, the Romanian RFC, the British OBR, the Italian UPB, the Spanish AIREF, the Austrian FISK and the Irish IFAC.

Figure 9: Fiscal agencies' remit



Source: Own elaboration based on Jankovics and Sherwood (2017)

Significantly, in those countries with more than one agency, the tasks may be split between the different agencies. This is the case of the Netherlands, where the CPB is in charge of some tasks that the RvS does not perform and vice versa. Thus, individually the CPB (NL) may be responsible for less tasks than other top-ranking agencies, but fiscal agencies as whole would have a broad mandate in the Netherlands.

Looking at the fiscal agencies' remits, we can identify several dimensions within it. Almost all the agencies participate in the production or the assessment of forecasts, as countries are required by the EU regulations to count with independent institutions for this task. However, they differ in their degree of involvement, with some agencies endorsing or assessing the forecasts, while in other cases the agencies prepare the forecasts themselves. The latter position clearly gives the agency a much more influential role. Thus, nine agencies produce macroeconomic forecasts and eight prepare budget forecasts Jankovics and Sherwood (2017).

Most agencies deliver a 'positive' analysis (i.e. budget forecasts, quantitative costing, etc.), while only a few are entitled to perform a more 'normative' analysis, including the provision of recommendations. Again, this could act as indication of an extent mandate and as a channel of

influence, allowing the institution to provide advice or take a position on a variety of policy issues. Moreover, a few of these agencies also have responsibilities that exceeds the realm of fiscal policy, which implies influence in other policy areas. Finally, as a curiosity and prove of the consolidation of the agency, we can mention that the Dutch CPB oversees the costs of pledges included in electoral platforms, trespassing from a pure policy level to a more political one.

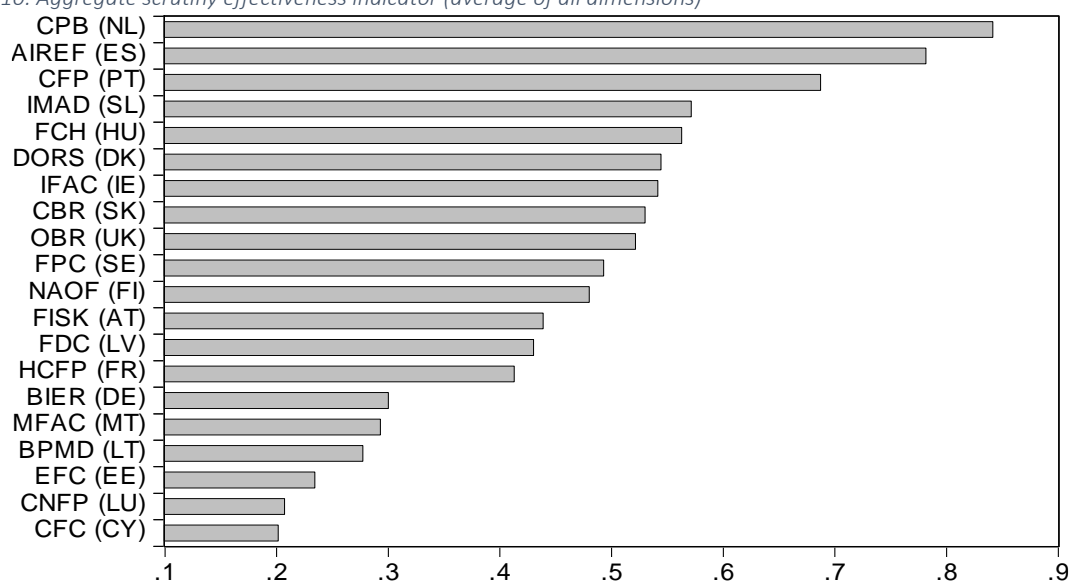
5.2 Can they do it? Examining the capacity and influence of fiscal agencies

The breadth of the mandate may be taken as indication of the strength and the influence of the fiscal agencies. However, it is weak instrument in itself because it does not take into consideration neither the depth of the mandate nor the ability of the agencies to carry out the tasks assigned to them. For instance, in order to be effective, the breadth of the mandate should be in line with the amount of resources assigned to the fiscal agency. Thus, if we go back to figures 4 and 5 and compare it with the results from figure 9, we see that the Dutch CPB, the Italian UPB, the Spanish AIREF, the Danish DORS and the British OBR count with resources (budget and staff) in accordance with their level of responsibility. However, the Greek GPBO, the Romanian RFC or the Finnish NAOF are infra funded or do not count with much staff.

An even more indicative measure of the potential effectiveness of these agencies or the ability to fulfil their mandate is the Aggregate Scrutiny Effectiveness Indicator developed by Horvath (2018). This indicator takes into account seven dimensions: breadth of mandate, financial resources, human resources, access to information, public awareness, reaction from the government, and relationship with Parliament. Thus, Horvath's indicator is a very good proxy of effectiveness and capacity, which is only partially captured by other indexes or indicators.

Figure 10 shows the average of the seven dimensions based on Horvath (2017). The results are pretty much in line what those in previous sections. Thus, the Dutch CPB, the Spanish AIREF and the Portuguese CFP are among those with the highest score, while the Estonian EFC, the Luxembourgish CNPF and the Cypriot CFC are the worst ranked. Not surprisingly, the results tend to be in line with those obtained for the previous indicators. However, there are a few surprises such as the high score obtained by the Hungarian FCH or the below expected result for the British OBR.

Figure 10: Aggregate scrutiny effectiveness indicator (average of all dimensions)



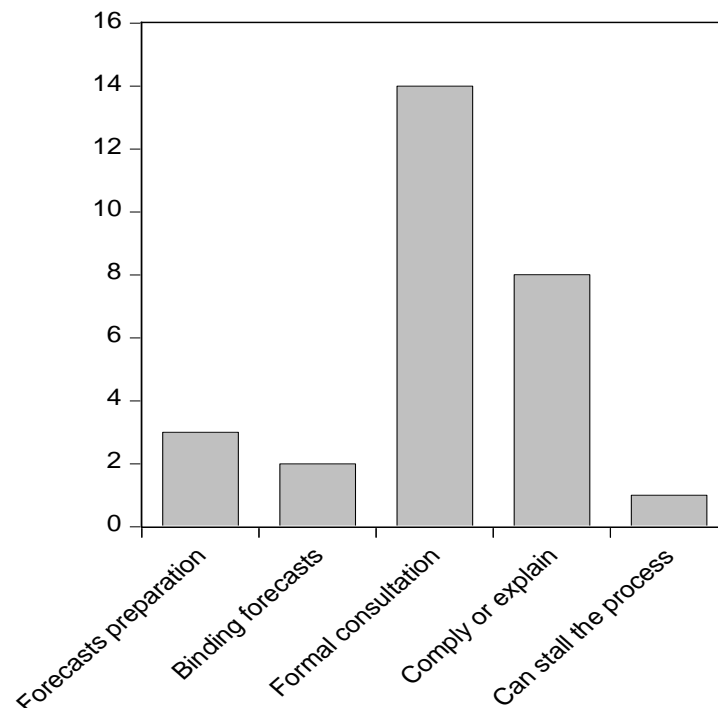
Source: own elaboration based on Horvath (2017)

Besides examining the full list of tasks carried out by these organizations, it is also interesting to zoom in and consider the role they play during the budget process. The IMF (2016) collects information regarding the participation of the fiscal agencies in the preparation of the budget at the national level for 25 cases. Thus, the list of variables includes if an agency is involved in the preparation of the underlying economic scenario contained in the budget, if those forecasts are binding, if there is a formal consultation mechanism in place, if the agency counts with a 'comply or explain' prerogative, and if the agency can block or delay the budget process.

As we can see in figure 11, in eight cases there is a '*comply or explain*' procedure in place. This forces the government to comply with the recommendation suggested by the fiscal agency or to explain why it departs from the opinion of the IFI. This procedure, recommended by the EC, guarantees that the opinion of the IFIs have some influence since it forces the government to acknowledge the recommendations of the fiscal watchdog and respond to them. Among the countries that count with this procedure, we can include usual suspects such as the UK (OBR), Spain (AIREF) and Portugal (CFP) or countries like Belgium (HRF/CSF), Cyprus (CFC), Estonia (EFC), Finland (NAOF) and Latvia (FDC).

Additionally, it is worth mentioning that two categories point at an even higher level of influence in the budget process, at least from a procedural point of view. We refer to the binding forecasts and to the ability to stall the process. Thus, in countries like Belgium (FPB), Netherlands (CPB) and Hungary (FCH) agencies could *a priori* frame the terms of the discussion and partially control the development of the timing of the agenda, creating an institutional framework in which they can exercise a credible threat on the rest of the actors.

Figure 11: Influence of fiscal agencies on the budget process



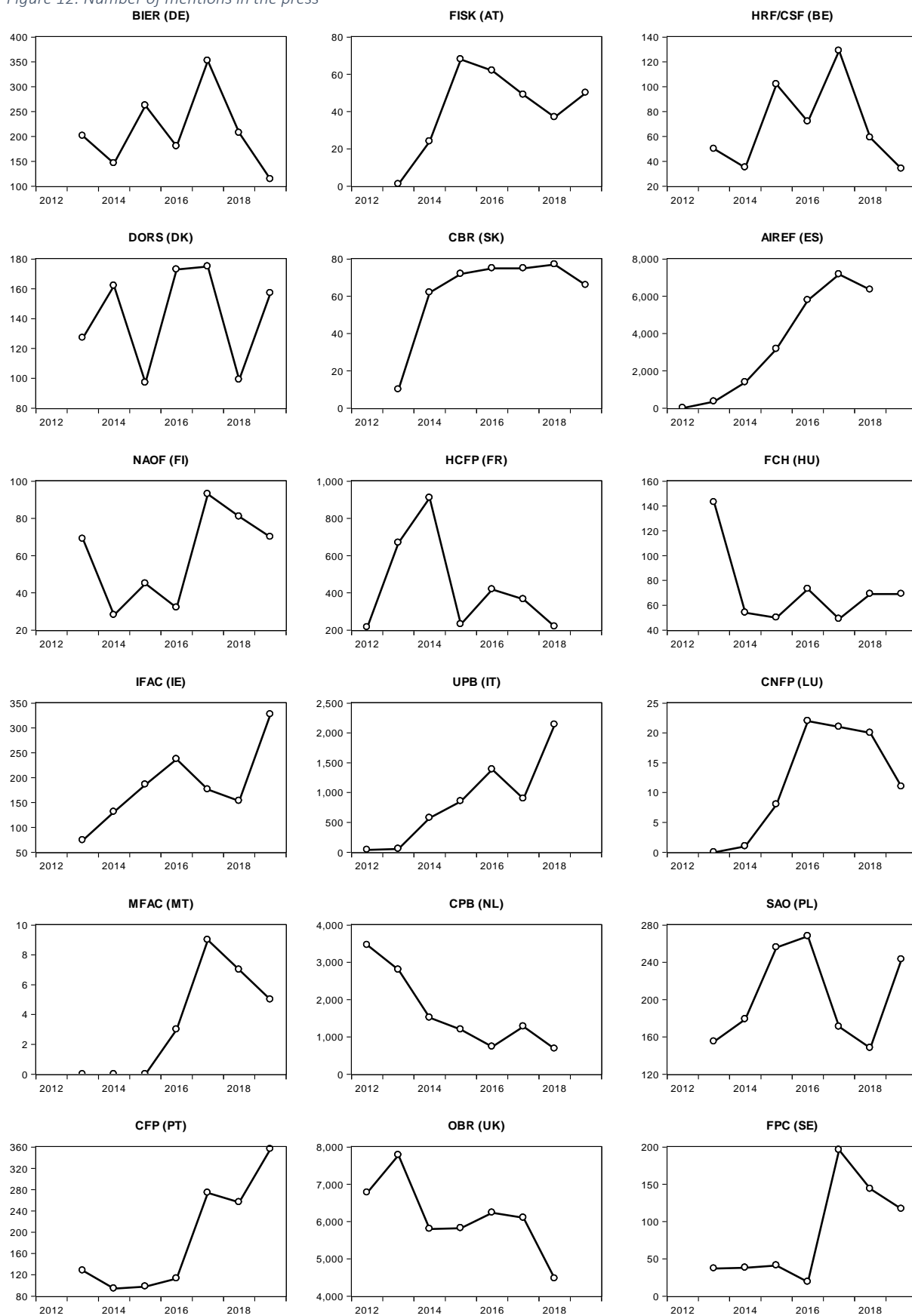
Source: own elaboration based on IMF (2016)

As we already mentioned, one of the objectives of creating a fiscal agency is to reduce the asymmetry of information between the government and the opposition/general public. In order to do this, these institutions need to have a good communication with key stakeholders and make their work visible. Not only that, the *visibility* of the agencies' work can also be taken as an additional proxy of their influence. Thus, the more visible is the work of the agency and the more its voice is heard in the public debate, the more chances it has to influence the actions of the government via political pressure, electoral cost or via technical arguments.

As a proxy of visibility, we use press mentions. Figure 12 shows the number of mentions in the press received by 18 fiscal agencies. The higher the number of mentions, the higher is the amount of information available to the public and the opposition. Claeys (2019) collected the data after reviewing 3832 media from 18 countries using Factiva. The richness and coverage is vast and it surpasses previous attempts to measure the media coverage received by fiscal agencies, e.g. IMF only includes a dichotomous variable.

Thanks to this data, we can see that four agencies receive a considerable large number of references in the press, the Spanish AIREF, the British OBR, the Italian UPB and the Dutch CPB. Therefore, we would expect that these agencies have more influence and can more easily frame the terms of the public debate on a variety of issues related with fiscal policy. Moreover, political actors can access effortlessly independent information on the state of public finances from a reliable and independent source. The case of the AIREF is truly remarkable, since in a very short period – it was founded in 2013 –, it has established itself as a very active and visible institution, reaching over seven thousand references in the press during 2017. In any case, the four institutions exceed a thousand mentions per year, which indicates that their work is highly visible and that it has an impact in the public opinion.

Figure 12: Number of mentions in the press



Source: own elaboration based on Claeys (2019)

In contrast with this high profile, the majority of the institution tends to receive a much more modest attention from the media. Thus, agencies like the Maltese MFAC, the Hungarian FCH or the Finnish NAOF do not reach the threshold of 100 mentions per year. Even more surprising is the fact that historic institutions do not receive much attention either, such as in the case of the Austrian FISK, the Danish DORS or the Belgium HRF/CSF. Finally, we notice that a few trends seems auspicious in terms of growing public visibility, e.g. the Portuguese CFP or the Irish IFAC.

It is also worth noticing how the size of the country does not seem to play a major role in the visibility of the agencies' work in the media. Thus, among the five biggest countries (UK, Spain, Italy, France and Germany) three possess agencies that receive a lot of media attention, while France and Germany have a relatively low number of mentions. The Dutch CPB, an agency from an intermediate country, is among the most cited in the press and easily surpasses larger countries. Additionally, Portugal also outperforms its peers and even bigger countries. Finally, even agencies from small countries like Ireland can surpass older agencies from comparable countries (Danish DORS) or double the number of references received by agencies from more populated countries (Hungary or Belgium). However, this raw measure could benefit from a more sophisticated ponderation by the size of the country, the number of reports presented by the agencies or the size of media sector.

5.3 What effects do they have on policy outcomes?

How much of an effect do these agencies have on fiscal policy outcomes? The ultimate goal of these institutions is to improve the governance of fiscal policy, increase compliance with the EU fiscal rules and foster efficiency in the management of public finances. As we have discussed at several stages of our work, assessing these effects is difficult for several reasons, which explains why we have a limited amount of evidence in this regard.

Forecasting is the area in which we count with more evidence of a positive effect of fiscal agencies. As discussed above, all agencies play some sort of role in the preparation of economic forecasts, which means that this area is particularly promising and pertinent. Beetsma et al. (2019) analysed the effects of the existence of fiscal agencies in the accuracy of these forecasts, finding a significant positive effect. Thus, the establishment of an IFI would increase the accuracy of the forecasting, by lowering the absolute forecasting errors – especially in the case of the primary balance – and possibly eliminating optimistic biases. The accuracy effects remained consistent – although not exempt from problems – after controlling for several factors such as the presence of fiscal rules, several fiscal indicators, monetary policy conditions and country specific factors. Moreover, they are in line with those found by Debrun and Kinda (2017) after using a similar approach.

In addition, a growing body of literature attempts to estimate the impact of fiscal agencies on the compliance with fiscal rules and on fiscal performance. Beetsma et al. (2019) found evidence that the presence of fiscal agencies can foster compliance with budget balance rules and expenditure rules (but not debt). Reuter (2019) identifies too the presence of strong and independent bodies to monitor and enforce fiscal rules – among which he includes fiscal agencies – as a significant factor to increase the probability of compliance, although in this case fiscal councils tend to act more as a monitoring body and not that much as enforcers.

Similarly, Coletta et al. (2015) analysed the effects of fiscal agencies on the cyclically adjusted budget balance, finding too a positive impact of these institutions on fiscal performance. Interestingly, these authors go one-step further and suggest that this influence is related to the functioning features and the legal framework under which these agencies operate, i.e. independent legal status and wide access to information would have a positive impact on the fiscal performance. More recently, Kostakis and Pappas (2020) have expanded the research agenda suggesting that fiscal agencies could reduce the risk premium of government bonds. In any case, as most of the authors recognized, we should be cautious regarding these results as the evidence regarding effects still suffers from significant methodological shortcomings, including problems of causal identification, endogeneity or uncontrolled interactive effects. Moreover, the literature has tended to ignore significant political factors, such as the extent of local ownership or the political support towards fiscal agencies.

Finally, several case studies provide suggestive evidence on the consolidation of fiscal agencies within their national systems, speculating on how they may have had a positive impact on fiscal policy. We can mention some representative examples such as the OECD evaluation for the Spanish AIREF (Von Trapp et al., 2017), Lebrun's (2009) on the Belgian case or the small-N study of Raudla and Douglas (2020).

Although the goal of this paper is not estimating the effects of fiscal agencies on policy outcomes, we do believe that continuing this line of research is crucial for improving our understanding of the role of fiscal agencies. Hence, in order to be successful at estimating these effects, we first need to identify the relevant characteristics that may be behind those effects. Under this logic, our work is useful to identify relevant institutional traits that should be added to the causal mechanism through which these agencies could affect policy outcomes.

In our analysis, we have observed certain regularities across the data examined on fiscal agencies. Thus, the Spanish AIREF, the Italian UPB, the Austrian FISK or the British OBR tend to perform quite well in the majority of the indicators. This seems to indicate a high level of institutionalization and strength across different areas (Nº of staff, size of budget, breadth of mandate, indexes of strength and independence, media visibility and impact, etc.). This tends to be also the case for the renowned CPB (NL), even if in some indicators it is penalized because of the existence of another agency within the country.

Additionally, the existence of variation in some of these metrics within the group of top performers offers a good opportunity to develop and implement a variety of research designs that can control for specific factors. For instance, the low level of media visibility of the Austrian FISK offers the chance to assess whether this variable affects the level of influence of this agency or if other factors and alternative channels of influence compensate it.

On the other hand, we can also identify a group of agencies that perform below average across several dimensions. Surprisingly, here we can include the German BIER, the Luxembourgish CNFP and the Belgium CSF/HRF. These agencies count with fewer resources, a more limited mandate and less strength and capacity. Consequently, we expect a much lower level of influence and impact on policy outcomes.

The results also provide suggestive evidence against the idea that northern countries would have stronger agencies (based on ideological predisposition) or to the notion that older agencies would count with an advantage over the new ones due to a higher level of influence or institutionalization acquired over their longer existence. Much remains to be assessed regarding the factors behind the creation of these institutions, how they have consolidated their role and what effects do they have in policy outcomes. Hence, examining in more depth the strength of these agencies, the level of local ownership, the role played by the leadership, the relationship with other institutions or their channels of influence seems a promising research agenda.

6. The European Semester: framing the role of representative institutions in budgetary processes

The European Semester is a relatively new addition to the economic governance of the Euro area by which Member States coordinate their budgetary decisions in order to avoid, prevent, or at least deal with the negative externalities inherent to having different fiscal policies despite sharing a single currency. It is thus a consequence of the specific design of the Euro, but one that was not needed and thus foreseen when the EMU was established. As a matter of fact, it was only after a decade of the birth of the Euro that the European Semester has been introduced into EMU. Hence, in order to fully understand its functioning and role, it is crucial to explain, at least in broad terms, how the EMU was originally designed and the reasons why this new coordination of national budgetary policies is currently required for the well-functioning of EMU.

6.1 The EMU and the resulting need for coordination of national budgetary policies: institutional, legitimacy and legal implications

It is well-known that the EMU is based on an asymmetrical design (Eichengreen, 1997 and 2012). On the one hand, exclusive competence over monetary policy has been conferred to a newly created, independent institution, the European Central Bank (ECB), working in intimate connection with national central banks after they gained a substantial degree of independence from national representative institutions. The upshot is that within the Euro area monetary policy is autonomous both in substantial and in institutional terms. On the other hand, competence over fiscal policy remains national, Member States being wary of the idea of sharing fiscal capacity at European level. Reluctance in this regards predates the actual establishment of EMU, as proved by taxation being one of the areas where Member States have been consistently blocking harmonization. The combination of these two elements – *common* monetary policy and *national* fiscal policies– define the constitutional design of EMU.

6.1.1 Institutional design of the coordination

All these constraints urged for the launch of certain kind of dialogue between monetary and fiscal authorities within the Euro area that could facilitate the coordination of the different economic policy actions taken at European and national levels. This need for coordination is inherent to the constitutional design of EMU and has been articulated through different, cumulative mechanisms that had gradually led to the current institutional setting for economic

governance. The Euro crisis added a new layer to the European governance's institutional setting once the Greek budgetary situation proved the working method of the Eurogroup, mainly based on peer pressure, and naming and shaming, ineffective. Coordination through national executives was not enough to guarantee the stability of the single currency, especially when trust in peers had vanished. Consequently, together with a stricter control from the European level over national statistics and economic indicators, as well as with a semi-automatic sanctioning procedure in case of infringement of the Stability and Growth Pact rules, the post-crisis scenario transformed European governance by increasing the monitoring of national budgetary activity from the European level.

To that end, Euro area Member States share among them their respective budgetary plans at an early stage, so as to identify eventual deviations from the path towards convergence (as identified by the Stability and Growth Pact) and negative externalities. Once adopted, implementation of the budget is closely followed up from the European level, too. Whereas in the national context proper parliamentary debates on budgetary matters take place usually during the Autumn, these surveillance of early budgetary plans and monitoring of actual budgetary implementation –both activities depending mostly on national executives– happen during the Spring term. This 'European Semester' thus complements the national budgetary period, resulting altogether in a single and continuous budgetary process of successive planning, deciding and implementing on which both national and European levels are involved. Interestingly enough, due to the amount of work that entails diving into specific budgetary proposals, the supervision of these at European level is not carried out by peers anymore, but has been transferred to the Commission. The needed coordination of economic policies has thus added a new layer to the European governance, i.e. in addition to multilateral exchanges between national executives in a peer-to-peer context, national budgets are subjected to the scrutiny of the Commission.

6.1.2 The tension with national mechanisms of (democratic) legitimation

The need to coordinate national fiscal policies, inherent to the constitutional design of EMU, has a relevant impact on national mechanisms of legitimation. In general, the legitimacy of the EU's political system has been assessed in relation to the normative categories of *input* and *output* legitimacy (Scharpf 1999). The former results from the intervention of democratically legitimated bodies in the formation of public decisions, whereas the latter depends on the effectiveness of the political action: as long as public goods are delivered according to expectations, citizens will in general accept and support European integration. These two approaches to legitimacy are also applicable to nation-states, but in that context input legitimacy predominates. By contrast, in the EU the legitimation apparatus works precisely the other way around: for decades there was no directly legitimated institution and therefore output legitimacy was the rule. However, due to the close engraining of the EU and national political systems, their legitimacy should be assessed altogether rather than independently. When considered from this viewpoint, and taking into account the temporal dimension in a process of integration, it is possible to distinguish three different stages in the legitimation of EU and its Member States – albeit reducing to a simplistic caricature what in reality is a long-term, gradual evolution. First, until the establishment of the EMU output legitimacy of the EU complemented the democratic-based legitimacy of Member States, to the point of working together on a symbiotic fashion. While the European level contributed to the consolidation of

economies and the provision of goods, national politics were able to redistribute these according to political preferences. Agreeing with the well-known formulation, ‘Europe rescued the nation-states’ (Milward, 1992).

A second stage began with the signature of the Treaty of Maastricht and the agreement regarding the establishment of an EMU. This agreement substantially changed the distribution of tasks between the EU and the Member States: redistributive instead of regulatory issues started to be decided at European level. Consequently, the EU had to justify the adoption of substantively different type of decisions despite keeping its legitimation mechanisms relatively unchanged – it is true that from 1979 the European Parliament was directly elected by European citizens, but its decision-making powers in EMU were practically non-existent. The mismatch between the substantive content of the political decisions adopted at the European level and the legitimation apparatus supporting them led, among other reasons, to a widespread discussion on the EU’s democratic deficit (Majone, 1998; cf. Moravcsik, 2002). The reaction from the European institutions consisted in finding new ways to increase their legitimation (European Commission 2001). Resulting from this new approach, a third normative category of legitimacy (*throughput* legitimacy) has been elaborated, according to which the procedural elements of the decision-making (namely accountability, transparency, inclusiveness and openness) could contribute to the overall legitimacy of the European polity (Schmidt, 2013; Schmidt and Wood, 2019). While still relying on solid representative institutions within the national context, from the European level input, output and throughput legitimacy were supposed to contribute altogether to the legitimation of the polity as a whole.

Finally, the financial crisis imposed a number of changes in European economic governance with the aim of increasing the effectiveness of the coordination of national economic policies. These changes, from which the European Semester is one of the main outputs, not only had an impact on the legitimation apparatus of the EU (Losada, 2013), but they also eroded the legitimation mechanisms of the Member States. This is so because, against what was the case during the first decades of integration, the changes in economic governance implied a trade-off between effectiveness and legitimacy: the price to pay for guaranteeing the effective coordination of economic policies – a precondition for the stability of the euro – was for Member States to renounce to some degree of budgetary sovereignty and commit to fiscal consolidation. The upshot is that in order to increase the effectiveness of the EU in this particular field (output legitimacy), the responsiveness to democratic demands as expressed in and by national representative bodies (input legitimacy) shall be disregarded (Crum and Merlo 2020). However, the effects of this trade-off on national mechanisms of legitimation are not circumscribed to economic policy. Rather, they erode the core of the mechanism of democratic legitimation, damaging the foundational democratic principle of self-determination (Leino-Sandberg and Losada, 2020). In other words, by addressing the pressing deficiencies of the Euro area during the crisis, the policy measures implemented through the European Semester contributed to depoliticize fundamental political decisions, such as budgetary ones (Macartney, 2013).

6.1.3 Legal framework – the codification of the European Semester in secondary law

The EMU institutional design and its subsequent development generated a depoliticized governance system. However, when reading the provisions of the Treaties regarding economic

policy coordination nothing indicates that this has to be the case. According to these provisions, Member States must *‘coordinate their economic and employment policies within arrangements as determined by this Treaty’* (Article 2(3) TFEU). The specifics of these arrangements are detailed in Articles 121 and 126 TFEU, describing the multilateral surveillance procedure and the excessive deficit procedure, respectively. Under the former, the Council establishes the broad guidelines for Member States’ economic policies and the Commission monitors its implementation on the basis of information provided by the Member States. Complacent performance may lead to infractions, against which the Council can adopt recommendations and make them public –for the markets to consider. The excessive deficit procedure, on the other hand, establishes maximum ratios for public deficit and gross debt (3 and 60 per cent of GDP respectively). Sanctions in case of infringement escalate from a Council recommendation to non-interest-bearing deposits lasting until the excessive deficit is corrected and eventually, in the absence of effective action, to fines *‘of an appropriate size’*. The Treaty also provides the possibility to adopt relevant secondary legislation to further develop these two key procedures if deemed necessary (Articles 121(6) and 126(14) TFEU, read together with Article 136(1) TFEU if specific measures for Euro area Member States are required).

Other than these clear fiscal rules, the premise assumed in the Treaty is that economic policy decisions are national. To be sure, Member States shall consider their economic policies as a matter of common concern (as they shall also consider employment policies, according to Article 146 TFEU). For such a purpose they rely on soft modes of coordination that allow them to identify and discuss together –but address individually– any eventual spill-over effect of their national choices on other Euro area Member States. This is so because, in terms of competence, from the European level only arrangements supporting, coordinating or supplementing Member States’ actions are allowed, *‘without thereby superseding their competence in these areas’* (Article 2(5) TFEU). The important conclusion is that, as it has been acknowledged by the Court of Justice, in the field of economic policy the role of the Union is restricted *‘to the adoption of coordinating measures’*³ and, consequently, EU competences cannot be used to overtake Member State competences or to settle substantive outcomes. In other words, the Treaty leaves the responsibility for substantive choices on economic policy to the Member States.

This said, due to EMU’s particular design, national decision making on economic policy matters must take into account implications for the whole EU. Therefore, for the correct functioning of the common currency, it is critical to articulate a procedure able to transform requirements for the euro as a whole into valuable input to be integrated into national budgetary procedures. This tension has been addressed in a number of successive legal regimes developing through EU secondary law the general framework established in the Treaty. The first of these regimes was the Stability and Growth Pact, fleshing out the procedural details of the multilateral surveillance procedure and the excessive deficit procedure.⁴ Despite the emphasis put on

³ Case C-370/12, *Pringle*, of 27 November 2012, EU:C:2012:756, para. 64.

⁴ The Stability and Growth Pact was originally composed by a political declaration by Member States leaders (Resolution of the European Council of 17 June 1997 (OJ C 236, 2.8.1997, 1)), and two regulations, one developing the multilateral surveillance procedure (Council Regulation (EC) 1466/97, of 7 July 1997, on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (OJ L 209, 2.8.1997, 1)) and the other one the excessive deficit procedure (Council Regulation (EC) 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, 6)).

limiting national fiscal policies to the extent determined by the Treaty requirements, this regime was conveniently amended once it was notorious that the imposition of sanctions, albeit based on objective data and figures presented by the Commission, ultimately depended on the discretion of Member States at the Council.⁵ Unsurprisingly, Member States were reluctant to reprimand and ultimately fine each other. The revision of the Stability and Growth Pact, consisting on the amendment of its two regulations,⁶ was thus intended to prevent the Council from being in the position of adopting those decisions. Consequently, under the second legal regime the assessment of the affected Member State's fiscal position was to be carried out by the Commission – on top of a number of additional amendments that, in a nutshell, adapted the interpretation of the clear budgetary rules of the Treaty to the specific economic features and political context of each Member State. Importantly as well, against the exclusive focus on corrective measures, a new preventive layer was added to the Stability and Growth Pact. Hence, the rationale of the pact, originally based on the swift management of excessive deficits, was relaxed in order to increase Member States' reaction time when addressing fiscal difficulties. As a result, budgetary discipline was weakened, switching the coordination of national economic policies from a 'rules-based system back to a system of discretionary fiscal policy making' (Calmfors 2005: 68).

The third instalment in this legal regime evolution is the European Semester. Due to the strictures of the financial crisis, tighter coordination of national economic policies and increased awareness of specific cross-border risks were considered decisive. Consequently, several secondary law acts grouped in two packages, one from 2011 (six-pack)⁷ and the other from 2013 (two-pack),⁸ articulated a six-month cycle for the coordination of national structural reforms and stability and convergence programmes under a new set of macroeconomic priorities. Within this regime, the Commission and the Council monitor each Member State's

⁵ Case C-27/04, *Commission vs. Council*, of 13 July 2004, EU:C:2004:436.

⁶ Council Regulation (EC) 1055/2005 of 27 June 2005 amending Regulation (EC) 1466/97 on the strengthening of the surveillance budgetary positions and the surveillance and coordination of economic policies (OJ L 174, 7.7.2005, 1); and Council Regulation (EC) 1056/2005 of 27 June 2005 amending Regulation (EC) 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 174, 7.7.2005, 5).

⁷ Regulation (EU) 1175/2011 of the European Parliament and of the Council, of 16 November 2011, amending Council Regulation (EC) 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (OJ L 306, 23.11.2011, 12); Regulation (EU) 1176/2011 of the European Parliament and of the Council, of 16 November 2011, on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, 25); Regulation (EU) 1174/2011 of the European Parliament and of the Council, of 16 November 2011, on enforcement measures to correct excessive macroeconomic imbalances in the euro area (OJ L 306, 23.11.2011, 8); Regulation (EU) 1173/2011 of the European Parliament and of the Council, of 16 November 2011, on the effective enforcement of budgetary surveillance in the euro area (OJ L 306, 23.11.2011, 1); Council Regulation (EU) 1177/2011, of 8 November 2011, amending Regulation (EC) 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 306, 23.11.2011, 33); and Council Directive 2011/85/EU, of 8 November 2011, on requirements for budgetary frameworks of the Member States (OJ L 306, 23.11.2011, 41).

⁸ Regulation (EU) 472/2013 of the European Parliament and of the Council, of 21 May 2013, on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability (OJ L 140, 27.3.2013, 1); and Regulation (EU) 473/2013 of the European Parliament and of the Council, of 21 May 2013, on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area (OJ L 140, 27.5.2013, 11).

budget implementation during the previous tax year and assess its budgetary prospects for the next one(s).

The whole policy cycle at the European level (see table 7) starts in November, when the Commission presents its Annual Sustainable Growth Strategy (a more ambitious political program than the previous Annual Growth Survey). This document includes its view of EU policy priorities for the coming year and integrating the objectives of the UN Sustainable Development Goals. Member States are invited to take into account those policy priorities when drawing up their economic policies for the coming year. In parallel, the Commission makes public its assessment of potential economic imbalances affecting a Member State, the Euro area or the whole Union in an Alert Mechanism Report. This document compiles the results of a scoreboard of indicators and launches the annual cycle of the Macroeconomic Imbalance Procedure. In February, the Commission publishes country reports assessing Member States' progress in implementing Country Specific Recommendations and, for the first time in 2020, monitoring their advancement towards the Sustainable Development Goals.⁹ For the elaboration of these reports the Commission not only employs 'EU Semester officers' placed at EU representations (Munta, 2020), but also builds its assessment on a number of exchanges with national institutions and stakeholders. These reports also include analyses of the eventual spill over effects of national policy proposals within the framework of the Macroeconomic Imbalance Procedure. If the Member State at hand is experiencing imbalances, the corresponding In-Depth Review is also considered.

In March, the European Council debates the Annual Sustainable Growth Strategy, sets out overall policy guidelines, and adopts conclusions. In April, national governments must submit their policy plans, including, among other documents, Stability and Convergence Programmes outlining the Member States' medium-term budgetary strategy, as well as National Reform Programmes outlining Member States' structural reform plans and focused on promoting growth and employment. In May, the European Commission evaluates national policy plans and presents draft Country Specific Recommendations, which in June are discussed and agreed by the Council and subsequently endorsed by the European Council. During this process, Member States are also offered an opportunity to comment on the draft. In July the Council adopts the Country Specific Recommendations, and Member States are invited to implement them. After that, Member States proceed with the elaboration of their draft budgetary plans according to their national procedures. By the 15th of October, they must submit them to the Commission for it to adopt an opinion before the end of November and to be discussed by the Eurogroup. In case of a serious risk of non-compliance with the rules, the Commission can request amendments to the budgetary plan.

⁹ European Commission, *2020 European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176(2011)*, COM(2020) 150 final, of 26 February 2020.

Table 7: The continuous policy process of the European Semester

Phase	European level		National level
	Supranational (Commission)	Intergovernmental (Eurogroup, ECOFIN, European Council, Euro-summit)	
Preparatory phase (November-December)	November Annual Sustainable Growth Strategy Integrating UN's Sustainable Development Goals Alert Mechanism Report Potential imbalances affecting a MS, the Eurozone or the EU		
Policy guidance at EU level (January-March)	February Country reports Progress on CSRs and towards SDGs In-Depth Review In case a MS experiences imbalances	March Annual Sustainable Growth Strategy Overall policy guidelines (European Council conclusions)	
Country-specific phase (April-July)	May Country Specific Recommendations Draft	July Country Specific Recommendations Endorsement by European Council Adoption by Council	April Stability and Convergence Programmes and National Reform Programmes
National budgetary processes (August-December)	October Draft Budgetary Plans Opinion	November Draft Budgetary Plans Eurogroup discussion	October Draft Budgetary Plans

Source: own elaboration

When compared to the previous coordination regimes, the European Semester clearly broadened the range of situations in which the EU could interfere —through recommendations, instructions and even outright sanctions— in a Member State's fiscal policies throughout the business cycle. A most telling example is that it enabled the Commission to request amendments to national budgets in the event they are not aligned enough to fiscal recommendations, as was the case of Italy's budgetary plan for 2019. But apart from these extreme situations, which rend crystal clear the nature of the monitoring apparatus established, the European Semester is a rather obscure overlap of various policy processes (fiscal surveillance of national budgets, multilateral surveillance of macroeconomic imbalances and coordination of employment policies) in which technicalities with equally important although less evident implications abound. This is particularly true for Euro area Member States, for which the sanctioning mechanisms have been designed so as to reduce to the minimum the discretion at the Council, and thus to work in a semi-automatic fashion. This goal has been articulated through the combination of several measures (Leino-Sandberg and Saarenheimo, 2017), such as reducing the time to impose effective sanctions to four months,¹⁰ restricting the margin of the Council when deciding among the type of sanction to impose,¹¹

¹⁰ Article 6.2 of Regulation 1467/97 after last amendment.

¹¹ Articles 11 and 12 of Regulation 1467/97 after last amendment.

altering the voting rules in the Council to reverse qualified majority voting (Palmstorfer, 2014), or requiring the Council to follow the recommendation of the Commission or otherwise give public reasoning for such deviation.¹² The upshot is that discretion at the Council has *de facto* been reduced to the minimum, hence transferring the actual assessment on the political opportunity of the sanction to the Commission.

6.2 Overall assessment of the European Semester

After reviewing the evolution of the coordination of national economic policies, it is possible to conclude that, against what was the original design of EMU in the Treaty, the European Semester assigned the Commission a central role in the coordination. This is another example of the agencification trend discussed in section 2 and it was the result of separate but interrelated developments. On the one hand, of the substantial deepening of the surveillance of national budgets from the European level, because the lack of administrative resources recommended transferring this task from the Eurogroup to the Commission – multilateral supervision thus became a bilateral exchange. On the other hand, of putting emphasis on enforcement through sanctions to address the mismatch between EMU’s design and Member State lack of incentives to implement its rules (Herdegen, 1998), because this gave significant leverage to the Commission over Euro area Member States. Moreover, the move from a rules-based system towards an increasingly discretionary coordination system turned the sanctioning provisions, initially designed as an emergency brake to be invoked when Member States’ policies pose a direct threat to the stability of the single currency, into a broad vehicle for guiding Member States towards the fiscal policies deemed adequate by the Commission.

In addition, as explained above, the European Semester contributed to the creation of independent fiscal institutions at the national level with the implications already discussed. Overall, through these reforms the Commission has received highly discretionary delegations reaching deeply into the political situation of each Member State, increasingly involving also questions of redistribution beyond the reach of its legitimation abilities. Furthermore, when using those powers, the leverage of the Commission vis-à-vis powerful Member States or eurosceptic governments is lesser than with other Member States (Rae Baerg and Hallenberg, 2016), thus proving that the drafting of country-specific recommendations constitutes a highly political process (van der Veer and Haverland, 2018). The upshot is that the legitimacy of the European political project and of the Member States, once working in a symbiotic fashion, is now shaken by the need to guarantee the stability of the common currency at all costs.

Instead of addressing this legitimation problem from an integral and consistent perspective, as for instance resulted from the original design of the Treaty, the approach followed has rather been to focus on solving specific malfunctions. Hence, in order to prevent widespread discontent with the economic policies implemented within the Eurozone, the Commission made an effort to find innovative ways to increase its responsiveness to public demands (Crespy and Schmidt 2017). This explains why, although the legal regime established by the Six-Pack and the Two-Pack has not been amended since its establishment, the actual implementation of their provisions within the European Semester has been constantly reworked. Two major reasons for this permanent state of revision have been identified (Zeitlin and Vanhercke 2018:

¹² Article 2a.1, second paragraph, of Regulation 1467/97 after last amendment.

168). On the one hand, after the initial focus on strict observance of the fiscal rules and the subsequent social and political discontent among European citizens with austerity policies, the Barroso Commission decided to enhance the social profile of its proposals for the European Semester. A few years later, the Juncker Commission, although streamlining the recommendations specific to each Member State by reducing their number and length, still reinforced the social approach of the analysis and proposals. On the other hand, social actors learned how to achieve their aims by lobbying European and national institutions, increasing the rate of success of their claims and thus contributing to the internalization of social issues in the European Semester. Although this approach might have succeeded in addressing punctual malfunctions, it ended up configuring the EU level and the European Commission as the right targets on which to exert influence, at an early stage, over issues connected with economic policies, such as social rights and policies. In other words, this approach has resulted in a process of centralization (Bekker, 2020). This can only aggravate the legitimization problems of EMU and, consequently, further alienate national representative bodies.

Over time, the effectiveness of the European Semester has gradually declined. If at some point results of economic policy coordination could barely be considered modest, in recent years they have worsened, especially among countries with excessive imbalances.¹³ As a matter of fact, there is a coincidence in the deterioration in policy implementation and the streamlining of the European Semester implemented by the Juncker Commission (Efstathiou and Wolff 2018: 4). Thus, the reduction of market pressure once economies have, each at its own path, recovered from the crisis seems to be a key element of this limited effectiveness. However, the need to accommodate discretionary political decisions into the European (allegedly) rule-based system of governance might have some influence as well— perhaps decisive. The problem seems to be that, despite attempts to ‘govern by rules’ and to ‘rule by numbers’ (Schmidt, 2020), the allocation of redistributive decisions at the European level inevitably alters the legitimization mechanisms of the Union and the Member States. Hence, in this specific field, at this stage of integration and under the current Treaty arrangements, legitimacy mainly derives from national democratic processes. EU action in support of the effectiveness of the sustainability of the Euro, especially if it happens through reinforced enforceability of its recommendations, can only damage this legitimization mechanism. Against what happens in other areas of EU law, national democratic legitimacy and European effectiveness are not compatible and mutually reinforcing. Instead, they play a zero-sum game in which both, European meddling in national affairs and lack of due care by national fiscal authorities, damage either the legitimacy or the effectiveness of the whole system.

¹³ In 2019 just 1.1% of the proposals were fully implemented by Member States, while in 60.2% of them there were limited or no progress at all. Even more telling is the analysis of the historical data, showing a sustained and consistent trend towards an increase of disregarded proposals (from 29.0% in 2012 to the 60.2% of 2019). When considering proposals substantially implemented (from 11.6% in 2012 to 1.1% in 2019) or at least showing some progress towards the objectives (from 59.4% in 2012 to 38.7% in 2019) the historical record does not provide further reasons for optimism. See European Parliament, Country-specific recommendations: An overview – September 2019, PE 624.404, p. 7, available at [https://www.europarl.europa.eu/RegData/etudes/BRIE/2018/624404/IPOL_BRI\(2018\)624404_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2018/624404/IPOL_BRI(2018)624404_EN.pdf); and European Parliament, Implementation of the 2019 Country-Specific Recommendations, PE 624.400, available at [https://www.europarl.europa.eu/RegData/etudes/ATAG/2020/624400/IPOL_ATA\(2020\)624400_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/ATAG/2020/624400/IPOL_ATA(2020)624400_EN.pdf).

The key question is therefore how to guarantee the pursuance of certain policies contributing to the sustainability of the Euro *while* observing national competence on budgetary issues, as mandated by the Treaty. The proposal of the Commission (European Commission 2020), is to increase national fiscal actors' ownership over the rules they have to implement. By ownership it is meant the 'internalisation of the spirit of the EU's fiscal rules into the national budgetary process' (Schlosser, 2019: 53). However, it is debatable to what extent acceptance and even internalization of these rules by national fiscal authorities can replace their lack of agency over economic policy decisions. This is so because, crucially, budgets have a massive importance in democracies. Key economic and fiscal policy choices touch upon fundamental questions of both constitutional and democratic nature. In national parliamentary elections, economic and fiscal policies form the hard core of campaign platforms and are therefore a key part of the democratic process. Moreover, budget content reflects a certain political project for the polity, which the citizens support through the election both of their representatives in the national parliament and (directly or indirectly) of their government. Therefore, macroeconomic policy decisions cannot be adopted without the approval of national parliaments.

This is also the understanding of national institutions, which unambiguously have emphasized the substantial influence that national parliaments should enjoy in this field in order to guarantee the democratic nature of decision-making.¹⁴ Economic policies deal in essence with the trade-offs between equality and efficiency, between protection and flexibility. Redistribution is the most fundamental matter of politics; it involves the key societal choices that form the heart of political decision-making and the primary dimension of political organization. In a democratic society, decisions regarding these choices are, and can only be, contested and legitimized through democratic elections (Leino-Sandberg and Saarenheimo, 2019).

7. The role of national parliaments in the European Semester

As it has been explained in the previous pages, EMU was conceived as an asymmetrical political system where a shared currency at European level coexists with several national economic policies. Hence, by signing and ratifying the Treaty of Maastricht, Member States have conferred to the EU their competence on monetary policy, but they agreed as well to maintain under national control competences over fiscal policy. However, in a currency union they should address these economic policies as a matter of common concern. This willingness to coordinate national economic policies is nevertheless based in the premise of national budgetary sovereignty. Accordingly, the Treaty cannot formally introduce any change in the way Member States handle their budgets, a principle that has been in theory respected in the successive legal regimes developing the coordination of economic policies. It is nevertheless important to consider to what extent the European Semester affects, at least indirectly, national budgetary sovereignty. In particular, due to the dependence of EMU's whole legitimization apparatus on national democratic legitimacy, it is worth considering if – and if so,

¹⁴ See the German Constitutional Court: BVerfG, Case No.2 BvE 2/08, 30 June 2009 (Lisbon), paras. 244 and 249; BVerfG, Case No.2 BvR 1390/12, 18 March 2014 (European Stability Mechanism), paras. 161 and 162. See also Statement of the Grand Committee of the Finnish Parliament, 4/2012 vp.

how – the European Semester has altered the autonomy of national parliaments regarding budgetary decisions.

7.1 The impact of the European Semester on national parliaments

When addressing the above-mentioned questions several variables should be considered. First, the distribution of roles between executive and legislature in the budgetary process differs between Member States. Secondly, there is also variation among the models of parliamentary scrutiny over executive participation in EU decision making. Finally, the specificities of European economic governance, especially when considering that depending on the budgetary situation of the Member State at hand, there could be more stringent requirements imposed from the European level. In what follows we elaborate these variables before assessing the impact of the European Semester on the role and participation of national parliaments on their respective budgetary procedure.

7.1.1 Relation between national parliaments and national budgetary procedures

National parliaments' participation in budgetary procedures varies greatly between different political systems – to the point that it has been suggested that the idea of the budget as pre-eminently a task of parliaments should be considered a myth (Wehner, 2010: 54, 75). As a matter of fact, the role of the executive in the budgetary process is remarkable and, in some cases, particularly dominant. Therefore, the concept of budgetary sovereignty refers to the combined activity of national parliaments and executives when deciding about state revenue and expenditure. Consequently, procedures and arrangements assigning actual tasks to the executive and the legislature depend on national constitutions and differ greatly between Member States. In any case, they all relate to a basic attribution of successive roles during the budgetary cycle of elaboration–approval–implementation–control, according to which the executive elaborates the budgetary proposal on the basis of the political program supported by the legislature, which subsequently approves it. Implementation of the approved budget is then carried out by the executive and, finally, the legislature monitors the adequacy of the actual implementation to the plan previously approved.

Against this very reductionist approximation to the policy cycle, common to all democracies, each Member State has its own particular features. For instance, the impact of the legislature in determining the actual content of the budget can vary ostensibly, from parliaments with significant decision-making powers to parliaments that exert some influence on the final decision to, finally, parliaments with little or even none influence over the budget at all (Wehner, 2004). Another important element affecting the involvement or intervention of the legislature in the budgetary process is the actual size of the budget. The bigger the amount of expenses, usually associated to public policies and to the inherent need of an administrative apparatus able to implement them, the more complicated it will be for parliaments to discuss them in detail, especially under the time constraints usually associated to budgetary decision-making (Ruíz Almendral, 2017: 48). In this regard expense ceilings, when well-adjusted to the political context, can allow parliaments to simplify and digest the information included in complex budgets. The quality of budgetary deliberation at parliaments can be also improved if discussions take place behind closed doors, but at the expense of the openness and transparency of the process, both key democratic features; or at committee instead of plenary

level, with the consequent decrease of visibility. It has been detected that, among national parliaments of the EU, the stronger their role in the annual budget process, the more likely it is that budgetary committees meet behind closed doors (Hallerberg et al. 2012: 72). In sum, the two key factors that determine the role of a parliament in the drafting of the budget are the timeliness and content of information at its disposal and the existence of formal arrangements for legislative debate of budget ceilings (Barraclough & Dorotinski 2008).

7.1.2 Parliamentary scrutiny over national executive participation in European decision-making

The Treaty of Lisbon introduced a series of new provisions instructing the Commission to communicate all legislative proposals to national parliaments. Since this innovation was implemented all national parliaments have in common at least the required tools for scrutinizing ex ante draft EU legislation and, subsequently, for inspecting and assessing government behaviour in the Council during the ordinary legislative procedure (Wessels et al. 2012). However, apart from this exogenous-based minimum common denominator between them, a number of endogenous features, resulting from the specifics of each constitutional regime, determine the extent to which national parliaments are well-adapted to the oversight of executive participation in EU matters in general. Among these features, the timing of the scrutiny and the access to relevant information are crucial: the role and influence of the parliament varies depending on when does the control take place (before or after government's participation in the decision-making – or even both) and on the type of information against which that behaviour is assessed. For instance, not all executives disclose the same type and amount of details about their European activities to their parliaments. Consequently, having sources providing reliable data from EU meetings and negotiations on top of governmental reports and oral explanations can contribute to improve the outcome of the scrutiny.

Another relevant feature to consider is the parliamentary formation under which the scrutiny takes place. Although plenary meetings are suitable for receiving information regarding issues of the widest spectrum and for setting accordingly a political position, committees on EU affairs can host more fruitful discussions about concrete and sensitive negotiations, for which they can even take place behind closed doors. Parliamentary scrutiny varies as well depending on the type of reporting by the government. While oral presentations and debates can be informative and allow interaction and dialogue with ministers, written reports and other documented exchanges allow parliaments' position to be better prepared and, ultimately, to increase the rigour and exhaustiveness of its control vis-à-vis the executive. Finally, the degree of transparency of the scrutiny affects public awareness of the discussed matters. A more informed citizenry will increase the leverage of the parliament when scrutinizing government participation in European decision-making.

The number of variables affecting the quality and intensity of parliamentary scrutiny over national executives' participation in EU decision-making makes possible a high number of combinations, ultimately resulting in a significant variety of national regimes. Comparison between features results ineffective because of the context-dependency of each variable. Instead, those features have been reconstructed along the lines of five ideal models of parliamentary scrutiny of EU matters in general (Rozenberg and Hefftler, 2015). These models

do not allow assessing which particular features are, by themselves, better adapted to the requirements of the EU multilevel polity. As a matter of fact, these models are not mutually-exclusive. Therefore, features of one model can coexist coherently in other models, but ultimately they show different parliamentary aspirations in relation to the scrutiny of executive participation in the EU. Thus, they reveal the different ways national parliaments are able to actually engage in EU matters. The first three ideal models (*policy shaper*, *government watchdog* and *public forum*) adapt, respectively, the classic legislative, controlling and communicating tasks of parliaments to the specifics of the control of executive activities in the European level, whereas the last two ideal models (*EU expert* and *European player*) identify parliaments willing to play a role more in synch with the requirements of the multilevel EU polity:

- Stressing national parliaments' profile as legislators, the ideal model of *policy shaper* purports a parliament with strong formal powers on the basis of which it is able to determine the position the executive must defend or promote at the Council. Hence, its focus is on *ex ante* activities, contacting a number of stakeholders able to provide valuable information for the elaboration of the mandate on which the stance of the country in Council negotiations is based. This requires discreet discussions, usually at committee level, to prevent fellow Member States to be aware of the actual constraints of the government's position in forthcoming European negotiations.
- In turn, the ideal model of *government watchdog* has mainly an *ex post* focus, since its priority is to control governmental activity. It does so on the basis of memoranda and reports produced by ministers and civil servants after meetings held in Brussels. This accountability exercise can be very effective, especially if MPs are sensitive about the political implications for the citizenry of the issues at stake. The scrutiny of the executive is subjected to full transparency, mostly taking place at plenary level. Aware of this, ministers will produce detailed explanations of their positioning during the negotiations, accompanied of good justifications for changes of opinion or concessions made.
- For its part, the ideal model of *public forum* conceives parliamentary debates as a setting where each political party can take a stance and explain to voters its position regarding EU related issues. This implies that the parliament works mostly at plenary level and with full transparency, and that it discusses both *ex ante* and *ex post* European negotiations and summits.
- As to the ideal model *EU expert*, it conceives parliamentary activity as gathering relevant information and producing well-documented reports about concrete EU relevant matters alternative to those presented by governments and EU institutions. These reports are aimed at influencing policy outcomes based on its solid data and convincing argumentation. Consequently, they are prepared in committees, with negotiations taking place behind closed doors and remaining secret, and they are presented early on in the policy cycle. The target audience of these reports are mainly EU elites and other officials, although they are also available to the public at large. Even other parliaments and EU institutions are expected to use them.

- Finally, the ideal type of *European player* envisions national parliaments as actors engaging directly at EU level, in particular with the Commission through the political dialogue and the early warning mechanism introduced by the Treaty of Lisbon to guarantee the observance of the principle of subsidiarity, but also with the European Parliament and other national parliaments through interparliamentary conferences. According to this ideal type, the national parliament engages in a network comprising all these institutional actors that enables it to exert influence by expressing its opinions and views early on in the policy process. Parliamentary activity takes place at the European affairs committee, all the exchanges and informal contacts remaining opaque to the general public.

Interestingly enough, empirical evidence of national parliaments resorting to political dialogue with the Commission (and thus behaving according to what is expected from the *European player* ideal model) allows identification of three different strategies as ultimate reason behind that dialogue: influencing EU legislation directly, attempting to control their government and engaging in public discussions (Rasmussen & Dionigi 2018). Hence, this proves that the *European player* model is compatible with the *policy shaper*, the *government watchdog* and the *public forum* ideal models.

We can extract some conclusions from adapting the ideal types of parliamentary scrutiny of national executive participation in EU decision making (Rozenberg and Heffler, 2015) to the specific features of economic governance (Kreiling, 2019), which we discuss below. When considered from this perspective, parliaments more prone to exert the classic parliamentary task of legislator (role of *policy shaper*) seem to be ill-suited to continue doing so in the new budgetary context. The significantly less transparent and definitely informal decision-making mechanisms in the European Semester reduce national parliaments' ability to establish ex ante clear limits for the executive to abide by.

Parliaments with the role of *government watchdog* will also face some decrease in their influence, because ex post scrutiny in the European Semester deactivates its basic mechanism to keep the executive under control: the pressure to be held publicly accountable at the parliament. Once important economic decisions have been adopted, members of the executive will give explanations through press releases or public statements, bypassing the parliament for those matters. The review of the terms of a Memorandum of Understanding or of the details of a country-specific recommendation issued by the Commission will take place only after their adoption. This suggests that these parliaments will increase cooperation with other parliaments and third actors in order to obtain information *ex ante*.

Parliaments with the role of *public forum* will instead have a more salient and relevant performance. Due to the inherent political nature of the issues discussed, touching on redistributive decisions, the parliament will become the right forum to debate and deliberate about policy options and their implications, offering the possibility to contest and influence government policy. As to the *EU expert* model, although challenging economic decisions would bring a possibility for intensive research and technical discussions, time constraints inherent to the budgetary policy cycle will limit the reflection on concrete, substantive policy options required for these activities. This is even truer in case a widespread perception of emergency urges to take political action, as was the case during the Eurozone crisis.

Finally, the *European player* model will be particularly well adapted to the requirements of EU economic governance. Their interest in establishing and consolidating inter-parliamentary relations and cooperation with different institutional actors will put them in a position from which critical remarks to EU decisions can be heard and integrated in the policy cycle. Acting together, in the medium term they might become a counterbalance to the predominant role of executive actors.

7.1.3 The specifics of European economic governance

The scrutiny of national parliaments over their respective executives' participation in European decision-making, described above, refers to general EU affairs. However, a number of specific features of EMU's economic governance complicate the direct application of this general parliamentary scrutiny regime to the specific framework for economic policy coordination. This is so because, on the one hand, instead of focussing on the formal adoption of legal acts, as is common in general political activity at European level, in the area of EMU executives decide about economic policies to be subsequently implemented at national level – as corresponds to the national competence in this area. Hence, the outcomes of these meetings are mostly policies rather than legal acts. And on the other hand, Euro area economic governance relies on summits at European Council level (even Euro-summits), but it is *de facto* articulated through informal meetings between ministers at the Eurogroup –working through peer pressure, sharing best practices, etc.– or through bilateral exchanges with the Commission. Due to the nature of these gatherings there are no detailed records of the debates and discussions beyond an *ex ante* public agenda of the meetings and an *ex post* concluding document plus ulterior public assessments by the leaders. The consequence of these features is that, due to the informal and non-public character of the meetings and the political rather than legal nature of the outcomes, national parliaments have a limited ability to scrutinize the activities of their respective executive in European economic governance (Curtin, 2014).

At the same time the European Semester also makes more difficult the general accountability of the national actors involved in the economic governance framework. This is so because under the European Semester the national economic and budgetary procedures have become entangled in a continuous multi-level policy cycle that 'never crystalizes (...) into a 'once and for all' agreement' (Dawson, 2015: 982). Because it is a complicated process with overlapping competences, where the formal adoption of budgets remains national but key parts of its substantive content are determined at the European level, it is not easy to determine who should be considered responsible, and hence be held accountable, for the outcomes (Crum 2018: 276).

Finally, another feature of the economic governance framework able to curtail national parliaments' capacity to influence the actual policy outcome is the numerous situations in which a Member State can be forced to implement fiscal consolidation policies. This can result from incurring on an excessive deficit (also including excessive public debt), but it gets aggravated in case of resorting to financial assistance from the European Stability Mechanism (ESM). Strict macroeconomic conditionality is a requirement for such assistance, disbursed against the signature of a Memorandum of Understanding (MoU) over which content parliaments have few controls. In principle MoUs are non-legal binding documents between private parties expressing their will to move forward under certain agreement. However, MoUs

between an EU Member State and the ESM and other creditors have legal consequences resulting from the provisions of the ESM Treaty, an international agreement outside the scope of EU law. Consequently, MoUs are placed in a 'hybrid legal space' (De Witte 2019: 124) or in a 'liminal legality' (Kilpatrick, 2017). Under these circumstances the self-determination of the polity inherent to the activity of the parliament is in fact annulated by the imperatives resulting from the need for effectiveness for the sustainability of the national debt and, ultimately, of the common currency.

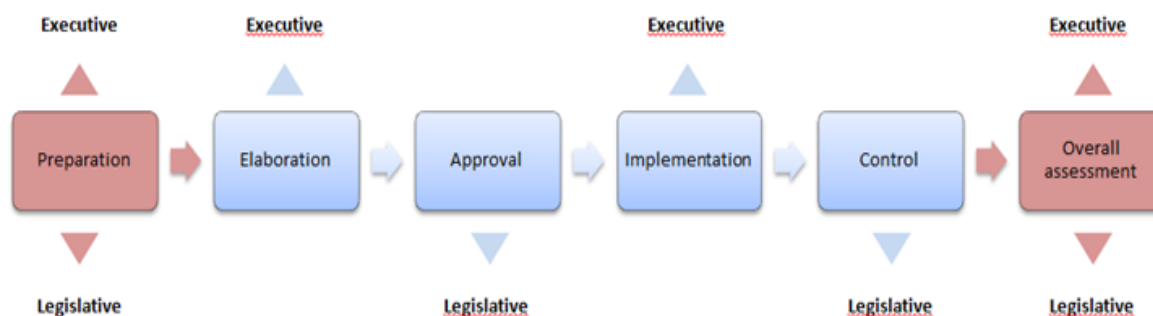
7.2 Reaction of national parliaments to the development of the European Semester

European economic governance has constrained national parliaments' ability to carry out two of their most essential functions: to participate in the national budgetary procedure and to control the activity of the executive. Against this backdrop, national parliaments have developed certain strategies to minimize the effects of these restrictions and even to take advantage of the new circumstances. These strategies are directly related to the supranational and intergovernmental features of the European Semester (see the respective columns in Table 7). National parliaments' reaction is determined by their position within their political system. Thus, during the policy-making stage of the budgetary procedure, they benefit from the interaction with the Commission in the context of the European Semester. On the other hand, in the scrutiny of the activities of the national governments at the European level, they have adapted their oversight mechanisms to the specifics of the economic governance.

7.2.1 *Improving the role of national parliaments in the budgetary process*

The European Semester has impacted on the traditional balance of powers between national executive and the legislature in the budgetary procedure. The Semester has expanded the classic national budgetary cycle (elaboration-approval-implementation-control) by adding a pre-budgeting phase, in which Member States must share their budgetary plans with the Commission, and a final assessment phase of the whole budgetary cycle (see Figure 13). Thanks to these additions, national parliaments have at their disposal supplementary information and documents against which to assess the budgetary proposal and its final implementation by the executive, reducing the asymmetry of information between them and increasing the ability of the parliament for controlling national executives (Ruíz Almendral, 2017: 54). In the same vein, the introduction of independent fiscal authorities monitoring compliance with fiscal rules (as provided by Article 5 of Regulation 473/13) has increased the accuracy of macroeconomic and budgetary forecasts in the way explained above (see section 5.2). These additions to the budgetary process have rebalanced the national disequilibrium between executive and legislative (see section 7.1.1), providing the latter with better arguments to question, debate or even counter the budgetary proposal. Not only that, but they also have the virtue of engraining national parliaments in a policy cycle allowing them to assess the actual implementation of the budget against the yardstick of concrete European goals with a long-term perspective sometimes missing in institutions that need to be periodically renewed.

Figure 13: Impact of the European Semester on national budgetary process



Source: own elaboration

7.2.2 A systematic scrutiny of European economic governance activities from national parliaments

Before the European Semester, national parliaments' oversight of executive action at European level in the field of economic governance was rather limited. Competence was national and compromises made in the Eurogroup could be openly discussed in economic policy debates in parliament. Moreover, new mechanisms for national parliament participation in the Union policy-making established by the Lisbon Treaty, as the Early Warning System to check the correct implementation of the principle of subsidiarity, were not applicable to this area precisely because competences were national. However, the intense intergovernmental activity developed at EU level in reaction to the crisis resulted in a number of informal practices, new institutional formations and international agreements that soon left out-of-step the traditional tight parliamentary mechanisms for executive control in this field.

The Eurozone crisis forced national parliaments to react to what was diagnosed as an instance of 'executive dominance' – the proliferation of intergovernmental decision-making (Eriksen and Fossum, 2011: 158). This reaction was based on adapting the traditional scrutiny methods of executive action at EU level to the specifics of economic governance. Hence, already existing instruments of control (see section 7.1.2) were refined and adjusted, in particular, to the features of the European Semester. Although progress was barely noticeable between 2010 and 2012 (Auel and Höing, 2015), national parliaments have since then developed various strategies to progressively increase their scrutiny over executives in these matters. For instance, during the last decade the number of parliamentary interventions of governmental actors related to EMU affairs has escalated, consolidating especially the scrutiny of European Council summits (Fromage, 2017b).

Moreover, between 2012 and 2015, in parallel to the growing importance of the European Semester and the active participation of Ministers of Finance therein, Budget or Finance committees replaced European Union Affairs committees as the most prominent ones in parliamentary scrutiny of national executive's activities in the EU (Hallerberg et al. 2018). In any case, both committees are the leading ones in all European Semester related issues across Member States (Hagelstam et al 2018: 3). Furthermore, the implementation of the balanced budget obligation imposed by the Treaty on Stability, Coordination and Governance in EMU

(TSCG) led to the introduction of expense ceilings in the budgetary procedure, which national parliaments have to approve.

However, there is still a lot of room for improvement in terms of scrutiny. Thus, national parliaments do not seem to be using all the mechanisms and tools at their disposal. For instance, Hagelstam et al. (2018) provide us with some evidence on the extent of cooperation between parliaments and IFIs regarding the European Semester. Thus, based on a survey administered to national parliaments from all Member States, they find that only three legislatures, out of 33, organized a hearing with the fiscal agencies to discuss the National Reform Programmes (NRP) and just five of those 33 arranged one for the Stability and Convergence Programmes (SCP). The cooperation is slightly stronger in Eurozone states, where seven parliaments, out of 24, consulted with the fiscal agencies at the time of the adoption of the Draft Budgetary Programme (DBP). Hence, we can conclude that the cooperation between fiscal agencies and parliaments remains quite limited, at least in formal terms and during the stages of the European Semester

Similarly, the same authors find that only a limited number of parliaments organize hearings with social partners or experts during the Semester. Even more surprising is the fact that only a handful of legislatures issue an opinion on the relevant documents prepared at the different stages of the European Semester (NRP, SCP, CSRs and DBP).

In sum, the crisis provoked a proliferation and intensification of parliamentary activity in budgeting and EU affairs. Rather than to a de-parliamentarisation, fiscal integration led to different ways of parliamentary adaptation (Jančić, 2016). In this regard, the reaction to the crisis and the European Semester have, somehow paradoxically, contributed to the improvement of the two key features for the ordinary budgetary processes, i.e. the timeliness and accuracy of information at their disposal when drafting the budget and the formal arrangements for legislative debate of budget ceilings (see section 7.1.1). Nevertheless, many tools and mechanisms remained unexploited by national parliaments.

7.3 A reflection on the current scenario under the COVID-19 pandemic

7.3.1 *The revision of the European Semester and the reaction to the COVID-19 pandemic*

In early 2020 the European Commission presented a package of proposals for revising the European Semester (European Commission, 2020a).¹⁵ The agenda for reform had to be nonetheless set aside soon after the first outbreak of the COVID-19 in Europe's territory, when its devastating economic impact was clear. However, widespread consensus on the need to take determined political and economic action to tackle the deep economic crisis unfolding under the pandemic led to a series of notoriously relevant changes in the EU macroeconomic framework. Obviously, some of these measures have affected the European Semester, integral part of this framework.

¹⁵ European Commission, *Economic governance review – Report on the application of Regulations (EU) No 1173/2011, 1174/2011, 1175/2011, 1176/2011, 1177/2011, 472/2013 and 473/2013 and on the suitability of Council Directive 2011/85/EU*, COM(2020) 55 final, from 5.2.2020.

Attending to their rationale, we can identify two different interventions affecting the ordinary workings of the European Semester. First, the temporary suspension of the limitation of budget deficit and public debt (Stability and Growth Pact) due to Member States' need to resort to massive public investment to face the crisis. Second, the mobilization of financial resources from the European level to complement Member States' reaction to the crisis, for which new institutional apparatus is in the making. These two interventions affect, although in a different degree, national parliaments' participation in the European Semester.

7.3.1.1 Activation of the SGP escape clause

Already at an early stage of the crisis, the general escape clause¹⁶ of the Stability and Growth Pact was activated.¹⁷ The consequence is that during the period of severe economic downturn, currently foreseen to last at least until 2023, Member States can depart from their respective medium term budgetary objectives. This means that budget deficit and public debt can exceed the limits imposed in the Stability and Growth Pact as long as they do not put fiscal sustainability in the medium term at risk – a condition not easy to assess in advance, due to the number and importance of the measures dealing with such a deep crisis. Uncapping national budgets increases the leeway of national executives and parliaments for designing income and expenses in accordance with the requirements of the demanding pandemic situation. Due to the public significance of the measures, it is in principle foreseeable that national parliaments will play a more salient role in the process than during ordinary times. However, the specific room of manoeuvre of national parliaments *vis-à-vis* the executive will depend again on the concrete conditions for the budgetary procedure established in each Member State constitution.

It is important to remark that, in principle, the activation of the escape clause does not alter the functioning of the European Semester. Hence, Commission and Council are still to arrange economic policy coordination between Member States.

7.1.3.2 Disbursing financial resources to Member States to tackle the effects of the pandemic

As a reaction to the pandemic, a second strategy complements the allocation of resources through the now unrestricted national budgets. Under the leadership of the Commission, a number of European level financial instruments have been mobilised, redesigned or proposed with the goal of granting funds to the Member States. These instruments comprise structural and cohesion funds, agricultural subsidies, European Investment Bank's credit lines, European Commission's public procurement and other regular mechanisms now reoriented towards the specific goal of supporting Member States recovery from the crisis. When combined, the total amount at disposal of the Member States is unprecedented (€ 1.5 trillion) and, unavoidably,

¹⁶ Far from what its name suggests, the "escape clause" are a number of incidental mentions included in several provisions of the SGP that, when read together, allow Member States to temporarily depart from their respective medium-term budgetary objectives or the Council to revise its recommendations to Member States subject to an excessive deficit procedure, in the event of serious economic downturn, provided that as a result fiscal sustainability in the medium term is not endangered. See Articles 5(1), 6(3), 9(1) and 10(3) of Regulation 1466/97 and Articles 3(5) and 5(2) of Regulation 1467/97.

¹⁷ The activation results from a communication of the Commission to the Council. For Member States subject to an excessive deficit procedure the actual activation results from a Council decision endorsing the Commission's proposal.

will have an impact on the EU macroeconomic framework – at least due to the amount of financial resources channelled from the European to the national level.

For the purposes of identifying the impact these measures may have on the European Semester and, subsequently, on the role national parliaments may play within it, it is relevant to distinguish two set of measures depending on their rationale. On the one hand, the solidarity clause entitling the Council to grant financial assistance in case of severe difficulties caused by reasons beyond the control of the Member States (Article 122 TFEU) has been activated. This provision is conceived as an exception to the tight general macroeconomic framework to be applied only under extreme circumstances. Consequently, this is the legal basis for the establishment of an EU Recovery Instrument able to fund programmes and measures in very different areas up to a total of € 750 billion.¹⁸ On the other hand, a Recovery and Resilience Facility was also proposed on the basis of the provisions on economic, social and territorial cohesion (Article 175 TFEU).¹⁹

In this case, the logic of the assistance relies on a different premise: funding is disbursed after national administrations apply for those funds, submitting a specific plan as to the goals to be achieved and future impact of the investment (National Recovery and Resilience Plans). If considered in accordance with the objectives and formal requirements of the action (to be specified in the legislative act currently under negotiation) the project can be accepted and the money disbursed. In such a case, national administrations still have the obligation to report about the progress in the implementation of the project. And, crucially, the financial assistance to be provided by the Facility is ‘intrinsically linked’ to the pursuing of sound economic policies – as considered by the Commission.²⁰ Consequently, the measures and proposals submitted by Member States shall be consistent with the structural challenges and priorities identified in the European Semester in previous Country Specific Recommendations. Furthermore, the deadlines within the European semester and the requirements of the Recovery and Resilience Facility have been designed as to overlap. Consequently, Member States requiring assistance through the new facility will produce their National Reform Programs and their National Recovery and Resilience Plans in a single document. The approval of every subsequent trench of disbursement will be decided by the Council on the basis of the Commission’s assessment of those plans. These new analytical assessments will replace the Country Specific Recommendations, but will still contain concrete comments on the budgetary situation of the Member State at hand.

7.3.2 Impact of the response to the pandemic crisis on the European Semester

At the moment of writing this piece, the European Commission had announced that the European Semester would be temporarily suspended, at least in its current form (European Commission, 2020b). Thus, after launching the ASGS, the Commission explained that Member States wishing to obtain funds from the Recovery and Resilience Facility (RRF) would need to

¹⁸ European Commission, *Proposal for a Council Regulation establishing a European Union Recovery Instrument to support the recovery in the aftermath of the COVID-19 pandemic*, COM(2020) 441 final/2, 28.5.2020.

¹⁹ European Commission, *Proposal for a Regulation of the European Parliament and of the Council establishing a Recovery and Resilience Facility*, COM(2020) 408 final, 28.5.2020.

²⁰ As expressed by the European Commission, *Annual Sustainable Growth Strategy 2021*, COM(2020) 575 final, 17.9.2020 (p.12).

submit a Recovery and Resilience Plan (RRP). Hence, since all governments are expected to apply to these funds, the RRP will substitute the National Reform Programmes. These RRP should plan reforms in line with the priorities identified in the ASGS and in previous Country Specific Recommendations.

Thus, the spirit of the European Semester is expected to be maintained. In fact, the European Commission in its ASGS clarifies that the European Semester and the Recovery and Resilience Facility are *'intrinsically linked'*. For instance, as we already mentioned, Member states should submit or integrate their National Reform Programmes within the RRP, whose reforms and project can be implemented up until 2026. The Commission will then assess these plans in analytical documents that will substitute the existing Country Reports. The Country Specific Recommendations will be suspended, given the forward-looking nature of the RRP. Therefore, the Commission will only issue recommendations on the budgetary situation.

On top of that, for all Member States the caps on budgetary deficit and public debt have been temporarily suspended, whereas the Macroeconomic Imbalance Procedure, on the other hand, will continue to be operational, monitoring in particular the expected cross-border risks resulting from sudden increase in private indebtedness (both in households and firms).

Despite the apparently frictionless addition of this new layer, integrating the strategy to tackle the effects of the pandemic in the European Semester might not be without consequences. In essence, three significant features of the new policy processes affect the nature of the Semester (see Table 8). First, whereas the original Semester was based on the coordination of various policy processes over which Member States were fully competent (although with certain accepted limitations), the post-COVID-19 regime is based on competences of the EU according to which it can grant financial assistance to certain Member States. Second, the type of action to be developed at EU level is therefore completely different: from monitoring national budgets in order to detect negative externalities for other Member States, to scrutinizing national accounts to authorize direct transfers of resources of redistributive character. And third, because of the specific legal basis enabling the adoption of the Recovery and Resilience Facility decisions (economic, social and territorial cohesion), the EP will intervene as co-legislator in the establishment of this instrument and, depending on the results of the legislative process in course, on subsequent decisions about disbursement of further funds.

Table 8: Policy processes included in the European Semester during COVID-19 pandemic

	Policy process	Provision of TFEU	Competences	Type of EU action	EU institutions involved
Original design	Broad Economic Policy Guidelines – Macroeconomic Imbalance Procedure	Article 121	National	Coordination	Council and Commission
	Excessive Deficit Procedure*	Article 126			
	Employment policy guidelines	Article 148			
Additional layer (applicable during COVID-19 pandemic)	Financial assistance in case of unexpected natural disaster beyond Member States' control (European Union Recovery Instrument)	Article 122	European Union	Disbursing of funds towards Member States	Council and Commission
	Specific actions outside ordinary regional policy funds (Recovery and Resilience Facility)	Article 175			European Parliament, Council and Commission

* Suspended until 2023 due to the COVID-19 pandemic crisis.

Source: Own elaboration

These three features are indeed connected to each other and respond to the different logic on the ultimate rationale of the policy processes at hand. While the European Parliament was excluded from the core activities of the original European Semester because they referred to Member States' competences on budgetary issues, in the new policy processes reacting to the pandemic it is co-legislator in all matters related to the Recovery and Resilience Facility. Thus, the EP will argue for its participation in subsequent decisions regarding both the assessment of Member States' progresses and the authorization of new disbursements within this regime (Crum 2020). Arguably, in the legislative negotiations ongoing at the time of writing the technical character of these decisions and the need for an agile decision-making procedure are being balanced against the massive-scale redistributive effects of the grants. While the former recommends a minimal involvement of the European Parliament in the name of an efficient decision-making, the latter responds to the necessary modicum of legitimacy such type of decisions entail. Hence, the dilemma between efficiency and legitimacy emerges again. Importantly, the intimate connection between the political project of the citizens, as expressed in election results, and the parliamentary autonomy over decisions of redistributive nature, giving shape to that project (Leino-Sandberg and Losada, 2020), justifies different institutional solutions for the original European Semester and the new layer added in response to the pandemic. Whereas in the past this argument led to limiting the involvement of European institutions into national decision-making to the minimum required to guarantee financial stability, it now supports the inclusion of the European Parliament in this new layer of the Semester.

7.3.3. The role of national parliaments in the new Semester

We can elaborate a number of considerations regarding how the new layer of the European Semester established can affect the participation of national parliaments in certain economic decisions. The first of these considerations departs from a preliminary assessment indicating

that the Commission will increase its leverage over Member States' economic policy decisions for as long as the pandemic lasts – and perhaps still after it abates. This results from the confluence of several factors, the most important of which is the integration of all the different responses to the pandemic into the workings of the European Semester. With this decision, the Commission increases the enforceability of the macroeconomic conditionality that it has been promoting –with limited success– during the 2014-2020 and for the 2021-2027 financial periods (Viță, 2018). It also consolidates a trend identified earlier in this work according to which the European Commission is politicizing the European Semester in an attempt to make it more responsive to social demands from stakeholders (see Section 6.2) and, particularly since the inauguration of the von der Leyen Commission, to overall orient Member States towards certain policy goals. This latter development explains the recent inclusion of the United Nations' Sustainable Development Goals (Langford, 2016) in the now renamed Annual Sustainable Growth Strategy, as well as the alignment of the whole reaction to the pandemic with the political objectives of enhancing the digital economy and of making Europe the first climate-neutral continent (European Green Deal). Consequently, with the addition of the new layer dealing with the pandemic measures, the role of the European Commission in the European Semester has become political, against the initial assumption of the EC carrying out a merely technical assessment in the framework of the coordination of national economic policies.

This consideration is supported, secondly, by the increased leverage the Commission will have over Member States receiving pandemic-based financial assistance. The urgent needs at national level, coupled with the unprecedented amount of money at stake, could work as a powerful incentive for Member States to comply with the Commission's (now political) recommendations – which, as was commented in section 6.2, have been losing effectiveness year after year. As a matter of fact, the pressing nature of the situation will, on the one hand, increase the effectiveness of the European Semester, eventually contributing to embedding conditionality in the EU political system (Viță, 2017; Losada, 2020). On the other hand, it may affect the independence of the Commissions' assessment depending on the evolution of the pandemic and its concrete effects on European citizens, and on the political pressure that may follow (Wieser, 2020). Be that as it may, the Commission will become an even more central and powerful political actor, capable of exerting influence and pressure to modulate the EU political program. If that is the case, pleas for the democratization of the EU through participation of the European Parliament in these decisions and through increased control over the activities of the Commission seem an obvious consequence.

Against this background, the assessment of the role of national parliaments in the post-pandemic European Semester offers more shadows than lights. It is true that, in principle, the new instruments and facilities will not affect the current budgetary timeline. In this regard, the pandemic does not open any new window of opportunity for national parliaments to intervene in the policy cycle – although another round of readjustments and adaptations of parliaments to the new predominant role of executives is to be expected after the first reaction to the pandemic (Griglio, 2020). The pandemic and its widely spread effects will offer some prospects for discussing at national level the general strategy and targets to tackle these effects. However, the actual content of the projects, its applications and the measures to be submitted to the Commission will rely on administrative units under the direction of executives –national and regional. Temporal constraints suggest that national parliaments will not have enough time to

reflect, discuss and propose alternatives to any concrete projects and proposals (even if they have the opportunity to read them before the actual submission).

Moreover, linking pandemic-based financial assistance and its macroeconomic conditionality to European Semester methods and, more importantly, its substance matter will allow the Commission (and eventually the European Parliament) to gain traction over certain policy goals and to shape the political project of the polity. A massive restructuring of Member States' economies along the lines of the European Green Deal and the digitalisation of society will take place through economic incentives linked to the pandemic recovery funding, and therefore excluding any participation from national parliaments. Their major intervention in the design and implementation of the response to the crisis will consist on the required ratification of the Own Resources Decision, by which the European Commission will be entitled to levy new taxes, along with the role they take in the design of the Recovery and Resilience Plans at the national level.

A remarkable feature of what we know so far about the documents presented by the Commissions is the extremely limited role assigned to the role of national parliaments. Thus, the Commission only refers to them once in its *'Guidance to Member States Recovery and Resilience plans, SWD(2020)205 final, part 1/2'*. In that document, the Commission invites that Member States to describe the institutional arrangements they plan to implement and the role that the national parliaments and other bodies or stakeholders will play in the adoption of the Recovery and Resilience Plans. Hence, it is doubtful that national parliaments would have a bigger say in the new, post-COVID-19 European Semester than in the original one.

Finally, our assessment must consider also the role that IFIs will play in this revamped European Semester. As we have mentioned above, the whole logic of the European Semester will be modified by embedding the measures to tackle the pandemic within its policy cycle. Including the management of the response in this mechanism neglects the radically different nature and rationale of the two types of policy processes, i.e. one assisting Member States with technical advice on their macroeconomic policies and the other providing financial assistance under some level of macroeconomic conditionality. Consequently, the Commission will, on the one hand, support Member States with technical advice and, on the other hand, promote certain policies through massive economic incentives that Member States cannot ignore because of the pressing conditions they face.

Within this new regime, IFIs may also experience some changes in their role. Based on the EMU governance framework explained in section 3, these institutions were designed as tools to increase compliance with the EU fiscal rules and to provide objective information and reliable indicators to inform the EU institutions and national political actors. Under the revamped European Semester, the existing rationale of their activity may be even more politicized, as it might ended up providing objective measurements of the macroeconomic position of the country on the basis of which the EU institutions will elaborate its assessment of the Member State's performance and determine funding decisions. Thus, the work of the IFIs would be the same (or very similar), but its outcome can eventually have deeper political repercussions. This situation can lead to very different scenarios such as the consolidation of IFIs as more influential technocratic institutions, to the questioning of this institution by national executives that do

not want to be held accountable or to enhance cooperation between IFIs and national institutions (particularly the parliament).

8. Conclusions: authority, delegation and legitimacy in macroeconomic and fiscal governance

This paper discusses two institutional developments within EU macroeconomic and fiscal governance that represent paradigmatic examples of some of the underlying trends behind the democratic deficit of the EU. Each of these institutional arrangements, the establishment of fiscal agencies and the role assigned to national parliaments in the European Semester, has considerable implications for the EU in terms of authority, delegation, legitimacy and democratic representativeness. In this section, we will discuss part of these implications and present some of the solutions proposed by different scholars or institutions.

A clash of technocratic and democratic trends has dominated the institutional development of the EU. From the very beginning, the European project lacked from a strong direct democratic link with the citizens, relying on an indirect mechanism for the transmission of legitimacy, representativeness and accountability. Thus, at an early stage, the democratic link came from the European Parliament, whose members were also member of national parliaments, and from the participation of national governments. Later on, the democratic connection was strengthened with the direct election of the European Parliament and was supposed to be further reinforced with the creation of the *Spitzenkandidaten* system.

Crum (2018) presents the democratic deficit as the inability of the European Parliament to compensate for the reduction of the national parliaments' power. Unsurprisingly, the traditional response to the democratic deficit in the EU was to give power to the European Parliament (Barrett, 2018), as an attempt of reinforcing input legitimacy. However, even when such option is available, it may not be necessarily enough. Firstly, because the European Parliament will most likely never be as powerful and influential as national parliaments are in a traditional democratic system. Secondly, because the electoral participation and the public engagement with the European elections has remained low even after increasing the EP powers (Franklin and Hobolt, 2011). Finally, because it is not clear that voters in all and every constituency would support this move.

Transferring competences to the EU was not always seen as problematic. As we have already mentioned, the issues delegated to the EU were perceived as largely technical (Majone, 1993) or policy areas that would not be politicized even if they were to remain at the national level (Moravcsik, 2002). As a result, the EU agenda did not receive much attention from the public and was not a major issue in the political debate, except in those countries where there was a strong Eurosceptic or nationalist sentiment and such cleavage was relevant to understand political competition at the national level.

This apathy or distance between the EU institutions and the public, together with the very complex institutional framework of the EU, was a major concern for analysts (Fromage and Van den Brink, 2018). Up until the Eurozone crisis, the delegation of economic policy to the EU was one of those areas that did not received much attention nor criticism from political actors. In

fact, some conceived the politicization of the EU agenda as a necessary step to reduce the democratic deficit of the EU (Schmitter, 1969; Hooghe and Marks, 2009), which was accused of being a technocratic organization. The positive effects of politicization would come from the increase of people's interest for the EU and the issues debated in this arena, which in turn would increase the democratic legitimacy of the European project. However, as Fromage and Van den Brink notice, the politicization of the agenda has gone in the opposite direction. Thus, with the transference of fiscal policy (and other competences) to the EU, there has been an increase of political polarization and an expansion of Euroscepticism and nationalism.

The Eurozone crisis exacerbated the tension between technocracy and democracy by forcing out some national governments and replacing them with technocratic leaders, e.g. Mario Monti – former EU Commissioner for over 10 years – replaced Silvio Berlusconi in Italy and Lucas Papademos – former Governor of the Bank of Greece and Vice President of the ECB – took over George Papandreu in Greece. Moreover, even those countries that did not suffer such a change in government were subject to pressures to implement the measures proposed by technocratic agencies, i.e. the *troika*, and constrained by strict fiscal rules. Therefore, the crisis damaged both the input and the output legitimacy of the EU and, more specifically, of the EMU governance framework (Scharpf, 1999).

In parallel, the increasing number of agencies and their growing power and influence in a variety of policy areas reinforced the technocratic trends present at the EU. Within this context, fiscal agencies represent a challenge for the input legitimacy and the democratic representativeness of the EMU governance framework. The agencies limit the scope of action of democratically elected institutions, such as the national parliaments and governments, diminishing the effects of the decisions taken by the citizens (directly or through its representatives). Thus, agencies can not only be an obstacle for the implementation of a desired policy, but may also act as a signal to which institutions and parties react by self-restraining and limiting the policy options offered to the citizens. Additionally, the decision-making process of these agencies may be obscure or unknown to the public, while their superior technical knowledge may limit the ability of other democratic institutions to effectively oversight them. These issues are present in all agencies, but are particularly problematic in the case of IFIs because fiscal policy is at the core of the political debate and is a key element of the ideological divisions.

However, IFIs can also foster legitimacy in two significant ways. The first and most obvious one is through output legitimacy. Thus, if fiscal agencies were effective in increasing the fiscal policy performance and in improving its efficiency, this could result in a higher level of legitimacy of the EMU governance framework. As we have seen in the previous section, the limited evidence we have so far on the effects of fiscal agencies seems to be pointing at a positive effect on performance, which can be enhanced by improving the agencies' effectiveness with measures such as providing them with enough resources, clear mandates, strong institutional mechanisms, etc. Nonetheless, it remains to be seen if the political actors – particularly citizens – perceive the positive role played by the agencies (IFIs tend to exercise influence through indirect channels) and if the policy outcome is perceived as the right goal. That is, if the agency increases the probability of reaching a policy goal (e.g. achieving the deficit objective set by the EU institutions), but that objective is rejected by the citizens, the agencies would not be

increasing the legitimacy of the EMU governance framework but not because of their intrinsic negative effects.

The second way in which they can have a positive impact on the legitimacy of the EMU governance is by reducing the asymmetry of information between the government and the opposition or the citizens, therefore increasing input and throughput legitimacy. Delegation generally implies a reduction of the democratic domain, limiting the mechanisms of transmission of preferences and accountability. However, one type of agency can have positive effects on democratic representativeness: those designed to reduce the asymmetry of information between the government and the citizens. In this case, there is what we could call a double agent scenario, where the citizens (principal) try to control the agent (government) but cannot observe or judge all their actions. One way of achieving this goal is to create an independent agency (second agent) in order to control the government and provide the principal with information so the citizens can exercise their preferences and hold the government accountable, through direct (vote) or indirect (parliamentary control) means.

This would be the case of fiscal agencies, designed to monitor the compliance with fiscal rules, improve the accuracy of economic forecasts and increase transparency. The data presented in figure 12 identifies a group of agencies that seems to be successful in capturing the media attention and effectively providing information to the public. However, the potential positive effect on democratic representativeness faces the challenge that fiscal policy is a highly controversial and political issue. Hence, to be successful, agencies not only have to be independent from political influence and count with enough resources and a well-defined mandate, but they should also have their interests aligned with those of the principal. In other words, conditions that facilitate the agencies' interest in reducing the asymmetry of information between the government and the citizens must be generated in order to increase accountability.

To ensure that the agencies align with the principal's preferences, there are several *ex-ante* and *ex-post* mechanisms. In the case of fiscal agencies, *ex-post* mechanisms could be those that offer the greatest benefit and do not require structural reforms at the European level. Thus, increasing the cooperation between fiscal agencies and national parliaments could bring various benefits from the point of view of democratic representativeness and for the achievement of their goals. In other words, the collaboration between these institutions can serve to solve some of the problems that they present individually.

The literature on the strength and effectiveness of IFIs emphasizes factors such as the relationship with the legislature and the 'local ownership'. That is, these institutions need to come closer to the preferences of the citizens and be able to collaborate effectively. Hence, fiscal agencies can have a positive impact on democratic representativeness and fulfill their goal of reducing the asymmetry of information by establishing a constant relationship with the institution in charge of holding the government accountable, i.e. the parliament (Fasone and Griglio, 2013; Fasone, 2015). In addition, the IFI-parliament interaction can contribute to reduce the ambiguity present in the agencies' mandates and to set the priorities within such mandates. In other words, it can serve to define and clarify the criteria under which the tasks delegated to the agency should be interpreted.

To summarize, the independence and strength of the IFIs are essential for the agencies to be able to carry out their functions effectively. This effectiveness could in turn foster output legitimacy and even contribute to the input (Scharpf, 1999) and throughput (Schmidt, 2013) legitimacy by increasing transparency and accountability. Paradoxically, increasing the autonomy and the independence of a technocratic agency would also hurt input legitimacy and democratic representativeness. Thus, agencies have two contradictory effects on legitimacy and which one dominates the other is going to depend on a number of institutional factors, mostly on the relationship between the fiscal agencies and the parliament. Therefore, the independence of the institution must be combined with sufficient democratic controls and accountability mechanisms. Thus, the key is striking a balance between independence and accountability, much like in the case of the ECB (Elgie, 2002).

From the point of view of the role played by national parliaments in fiscal policy and in the European Semester, the availability of more information and the fact that it comes from an independent body can be an instrument through which to exert pressure to hold the government and the European institutions accountable. We have seen that there is great heterogeneity in the influence of national parliaments in the semester, partly determined by their different scrutiny capacities and by their institutional organization. Establishing links, formal and informal, between parliaments and fiscal agencies can be one way to reinforce the parliaments' scrutiny capacity and their effectiveness.

There is a broad agreement among the analysts that empowering national parliaments is a necessary condition for increasing the democratic representativeness and accountability of EMU governance. Thus, this idea is present in the Five Presidents report (Juncker et al., 2015), in papers prepared by the European Commission (2017) or in the work of scholars like Crum (2018). Ultimately, the EP and the national parliaments represent the clearest source of input legitimacy for the EMU governance framework. This is even more important in the case of the budgetary process, where national parliaments are not only essential for its approval but should also establish the political priorities of the year. This explains why the European Semester is so problematic in terms of legitimacy, democratic representativeness and accountability. Breaking the link between citizens and fiscal policy outcomes (arguably almost all policy outcomes are fiscal policy outcomes) can severely damage the democratic representation and the ability of institutions to respond to the citizens' demands.

Reducing the stages at which the parliament can provide input to the budgetary process, marginalize it from important discussions, limiting the information to which it has access or submitting a closed project has necessarily an impact on its influence and political relevance. Hence, this can increase the perception that elections are meaningless, that parliaments do not play a meaningful role or that external actors make the decisions, which ultimately can lead to a decline in the support for democracy at the country level (Armingeon and Guthmann, 2014). Additionally, since the technocratic rhetoric implies the inability of the democratic mechanisms to cope with certain policy areas and the desirability of a retreat of politics, it creates a propitious space for the rise of populism and fuels a representation crisis. In a way, populism and technocracy can be thought as opposites sides of the same coin or complements of each other (Bickerton and Invernizzi-Accetti, 2017; Caramani, 2017).

The concept of throughput legitimacy is particularly useful to address the impact of the depoliticization and the Europeanization of the fiscal policy on the role of national parliaments. Throughput legitimacy focuses on the quality of governance processes in terms of efficacy, accountability, openness, transparency and inclusiveness (Schmidt, 2013; Barrett, 2018). Within this concept, two dimensions are particularly relevant to understand the role of national parliaments in EMU governance, the institutional and the constructive dimensions. The institutional dimension because neither the European Parliament nor the national parliaments have enough competences to hold accountable the responsible institutions (European Commission, national governments, European Council) and the constructive dimensions because there is no structured coordination between the EP and the national parliaments throughout the EU/domestic procedures (Fasone, 2018).

In addition to the need to reinforce the cooperation between parliaments and IFIs, there is also an urgent need to increase the cooperation between the EP and the national parliaments. This cooperation needs to be reinforced in general, but particularly during the European Semester. Thus, each of these institutions possess partial information, weak instruments of accountability within their respective arenas and much less influence than the parliaments used to have within their national political system. Therefore, increasing the cooperation between the two can also help to reduce the asymmetry of information between the legislatures and the national governments and between the parliaments and the European Commission/European Council.

Some instruments and forums have already been established to promote inter-parliamentary cooperation, although they may be too weak and face significant challenges (Crum and Fossum, 2009 and 2013). Among the most closely connected with the EMU governance, we can count the European Parliament Week, which comprises the European Semester Conference and the Interparliamentary Conference on Stability, Economic Coordination and Governance in the European Union. Additionally, there are a few more generalist forums that can also be included here, e.g. the Conference of Speakers of EU parliaments or the Conference of Parliamentary Committee for Union Affairs of Parliaments of the European Union (COSAC). Finally, almost all Member States also count with a Permanent Representative of the National Parliament to the EU.

Fasone (2018) goes a step further and suggests the creation of an interparliamentarism by committee mechanism. Thus, she argues that the cooperation between the EP and the national parliaments must go beyond sharing information and interparliamentary conferences, such as those that exist today. Instead, she proposes the creation of interparliamentary committees to control and influence the European Semester. These committees would be formed by representatives of both the EP and the national parliaments and would meet regularly around the key stages of the European Semester in order to examine and discuss the AGS, the Country Specific Recommendations (CSRs), etc. Such a proposal, which could be accommodated within the existing governance framework, could reinforce the cooperation between the EP and the national parliaments and increase their ability to scrutinize the semester. However, the reform would not represent an expansion of the prerogatives of the parliaments, i.e. EP legislative capacity would still be limited and would not be able to amend the AGS or the CSRs, while the national parliaments would still be constrained in their ability to significantly affect the NRP, the SCP or the DBP.

Besides the expansion of prerogatives assigned to the parliaments and the design of instruments that could be created to enhance the cooperation between them, there is room to improve the implementation of the Semester as it is. Thus, the discrepancy between those authors who conceive the European Semester as a negative development for the power of national parliaments (Crum, 2018; De Wilde and Raunio, 2018) and those more optimistic (Jančić, 2016) can be seen as an indication that Verdun and Zeitlin (2018) are right when they argue that the Semester remains unexploited. Thus, the first step to increase accountability and democratic representativeness in the EMU governance is to make use of all the prerogatives and all the formal and informal channels available to the national parliaments, which as we explained in section 7 are only used in a limited form.

Therefore, although the existing mechanisms (request the appearance of EU officers, consultation or debate) are on the lower end of the accountability scale, there is still a lot of room of improvement in its usage. As we can see in the two surveys carried out by Hallerberg et al. (2012 and 2018), this is something that has already happened to some extent and national parliaments have increased their involvement in the European Semester, although in limited ways. A positive effect derived from the full use of those mechanisms would make a stronger case for the expansion of the role of national parliaments (and the EP) in the European Semester and in EMU governance in general.

Finally, we conclude with some thoughts on the recent institutional developments caused by the response to the COVID-19. As we explained in the previous section, the room left for Member States to design their own institutional arrangements for the national governance of the RRF means that we can expect again a lot of cross-country variation in terms of the role assigned to the national parliaments. Moreover, it also implies that the European Commission is not willing to create a common framework or a minimum standard to foster the role of national parliaments.

Hence, the role of national parliaments in the governance of the RFF will remain most likely limited. This could amplify the problems of democratic representativeness and accountability present in the European Semester because this time the recommendations and the assessment of the new plans will be linked to the recovery funds. This poses a major challenge since the European Semester was not designed as a framework for the allocation and monitoring of funds and it changes the character of the Semester, moving from a purely advisory and coordinating role to a more consequential one (Crum, 2020). Thus, the use of these funds is likely to structure and organize the political competition within some countries, which will politicize the debate about its use (and, therefore, the European institutions stance). More importantly, the ability to condition the national policies will be more evident than before, even if this time is through the identification of spending priorities and areas to reform, rather than by imposing austerity policies.

It is not clear, for the moment, if the European Semester will come back to its current design or if a new institutional mechanism will be established permanently. If that is the case in the end, then there are many open questions regarding the final form of the new governance framework to assess it properly. However, the traits and weaknesses we have identified here regarding the democratic representativeness and the implications of both agencification and the depolitization of fiscal policy would still be valid. More importantly, a potential reform of

the European Semester and the EMU governance framework represents an opportunity to correct and amend some of the problems discussed in this work.

Establishing legitimacy and accountability in a complex and constantly evolving system such as the EMU governance framework is extremely difficult. We have argued that the EU suffers from a democratic deficit in which both the delegation to independent agencies and the limited role assigned to the national parliaments play a significant role. While the EP and national parliaments have increased their level of influence over time, this has not happened at the same pace than the agencies have consolidated themselves. Therefore, favoring the role of national parliaments by establishing or strengthening the links between the agencies and the parliaments and between the parliaments themselves can help mitigate part of this deficit. Moreover, such option could have positive effects on policy outcomes (effectiveness) and would not require major political reforms. The Europeanization of fiscal policy is bound to increase historical trends that consolidate and deepen the EU democratic deficit. Thus, while such a deficit may be partly inherent to the design and nature of a supranational institution like the EU, the EU should keep looking for alternatives to mitigate its effects.

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Annex

Introduction

This short document seeks to provide additional details about the decisions taken regarding the research design and the process of data collection of the sections dedicated to the Independent Fiscal Institutions. The information provided here should be read in conjunction with that provided in the body of the paper. The document is provisional and, therefore, subject to change. The authors are happy to receive feedback to improve this annex and will be glad to clarify any doubts regarding the data and methodology applied.

1. Sources

European Network of Independent Fiscal Institutions (EUN IFIs): This institution groups all the bodies that fulfill tasks as Independent Fiscal Institutions and have decided to join the Network. All countries have at least one organization in this Network, with the exception of Belgium and Poland. Although we do not extract data from this institution, it is a great resource to identify agencies and clarify some doubts as it acts as the “official club” of IFIs.

Organisation for Economic Co-operation and Development (OECD): This institution provides us with a dataset that covers 27 of the 38 agencies identified. This wide coverage helps to identify additional cases for our sample (including agencies from Belgium and Scotland). The dataset contains information on the resources, independence, process of appointment of the leadership, etc. Researchers from this institution have also developed additional measures or case studies in their works, cited when appropriate in the paper. Together with the IMF, it constitutes our main source of information.

International Monetary Fund (IMF): This institution has built a dataset that covers 25 out of the 38 agencies in our sample. It allow us to identify additional agencies (e.g. Belgium FPB) and, together with the OECD, it is the largest dataset in terms of indicators. Among the relevant indicators (discussed below), we can include the information on the agencies remit, the role on the budgetary process, the agency budget or the size of the staff. Additionally, researchers from this institution have developed metrics such as the SEC Index (explained below).

European Commission (EC): This institution also provides us with some additional cases, in combination with the previous sources or by itself (e.g. Polish SAO). Additionally, we extract from here the data for the SIFI Index (explained below).

Other sources: In addition to these four sources, we rely on individual studies for the collection of certain indicators. Since they are used for very specific purposes and they do not take part in the identification of the agencies, we discuss them below together with the variables they provide.

2. Case selection

For the identification of the respective agencies, we rely on the four main sources explained above. Table 2 includes the full list of agencies covered in our study. Thus, we include all the agencies covered by any of these four sources. This expansive criteria is used in order to create

the most comprehensive dataset possible and under the belief that the readers can always subtract cases and focus on those relevant to them.

2.1 Countries with just one agency

The majority of the countries only count with one fiscal agency and, therefore, they can be identified without controversy.

Country list: *Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, France, Germany, Italy, Latvia, Lithuania, Malta, Portugal, Romania, Slovakia, Spain, Sweden.*

2.2 Countries with more than one agency:

Austria: Austria is the only country with three institutions that fulfill the role of IFI.

- *Fiscal Advisory Council*
- *Parliamentary Budget Office*
- *Austrian Institute of Economic Research*

Although only the Fiscal Advisory Council is a member of the European Network of Independent Fiscal Institutions, the other two also carry out tasks as IFIs. Thus, the OECD includes in its dataset the Parliamentary Budget Office, while the European Commission adds the Austrian Institute of Economics Research. The Institute also has the particularity that it is not a standard public institution, but a non-profit association dedicated to research.

Although some observers may be surprised by this and may want to argue that the Institute should not be considered a fiscal agency, we can mention the fact that the Institute produces the forecasts for the Draft Budgetary Plan submitted to the EU in compliance with Regulation 473/2013 (Two-Pack).

Belgium: Belgium has two institutions that fulfill the role of IFI.

- *High Council of Finance*
- *Federal Planning Bureau*

Although the country does not have any institution affiliated with the European Network of Independent Fiscal Institutions, the two agencies identified here are included in at least two of the four sources described before (three in the case of the High Council of Finance). They both perform a wide variety of tasks as fiscal agencies (see figure 13 in the paper).

Ireland: Ireland has two institutions that fulfill the role of IFI

- *Irish Fiscal Advisory Council*
- *Oireachtas Parliamentary Budget Office*

Again, only the Fiscal Advisory Council belongs to the European Network of IFIs, but the Parliamentary Budget Office is also included in the OECD dataset and performs the typical tasks associated with an IFI.

Luxembourg: Luxembourg has two institutions that fulfill the role of IFI.

- *Conseil National des Finances Publiques*
- *National Institute of statistics and economic studies (STATEC)*

Again only one of the agencies – the CNFP – is a member of the European Network of IFIs. However, the European Commission also identifies the National Institute of Statistics and Economic Studies as an IFI.

In this case, the National Institute of Statistics and Economic Studies has assumed part of the tasks carried out by IFIs, e.g. preparation of forecasts and reports. However, the specificities of the institutional arrangements is not relevant for the inclusion of a case.

Netherlands: Netherlands has two institutions that fulfill the role of IFI.

- *Netherlands Bureau for Economic Policy Analysis (CPB)*
- *Dutch Council of State – Raad van State (RvS)*

In this case, both agencies belong to the European Network of Fiscal Agencies, which renders the identification as something straightforward. The CPB is a better-known agency and commonly associated with the ideal of a fiscal agency. Instead, the dual role of the Dutch Council of State may lead to some readers to confusion.

The Dutch Council of State acts both as the highest general administrative court and as an advisory body. In this last capacity, the RvS website states that the institution fulfills a variety of tasks as a “designated authority for independently monitoring compliance with the fiscal rules agreed by the European Union”. Consequently, the institution is included in the European Commission and IMF datasets.

Slovenia: Slovenia has two institutions that fulfill the role of IFI.

- *Slovenian Fiscal Council*
- *Institute of Macroeconomic Analysis and Development*

Both agencies belong to the European Network of IFIs. The division of tasks is similar to Luxembourg or Austria, with the Institute of Macroeconomic Analysis and Development focusing on the production of forecasts, studies and assessment.

United Kingdom: UK has two institutions that fulfill the role of IFI.

- *Office for Budget Responsibility (OBR)*
- *Scottish Fiscal Commission (SFC)*

The particularity of the UK lies in the fact that there is a subnational institution completing the work of the OBR.

2.3 Special cases:

Hungary: This country also presents some particularities that deserve to be briefly mentioned to avoid confusion. Although the country only counts with one agency that is easy to identified and that meets all the requirements, The Fiscal Council of Hungary has a history that should be taken into account by those interested in examining the case in more detail. Thus, the Fiscal Council was originally founded in 2008 through a Fiscal Responsibility Law, but due to political disagreements it was later abolished. A new Fiscal Council was reestablished in 2011 and given formal autonomy. Although a case study is beyond the scope of our paper, we flag this issue for the readers because of its potential relevance for case studies.

Poland: Poland case is an exception explained in the paper. This institution is not included in the majority of the literature and is not present in three out of our main four sources for the case selection. The closest thing to an IFI in Poland is the Supreme Audit Office, which in addition to act as the country Audit Office is supposed to be assumed part of the tasks normally assigned to the IFIs. In spite of this being relatively frequent, the case of the Supreme Audit Office is an exception because the institution does not perform sufficient tasks to be considered an IFI and because its independence does not seem to reach the threshold required by the EU institutions. Thus, the European Commission has flagged the issue on numerous occasions in its assessment of the Convergence Programmes and in Country Specific Recommendations, identifying Poland as the only country without an Independent Fiscal Institution. For this reason, when included in the analysis Poland is treated with caution.

European Fiscal Board (EFB): This institution, which would be the equivalent of national IFIs at the European level and initiated its operations in 2016, has a much smaller role and it can be described as an advisory technical body. Following a proposal contained in the five-presidents' report (Juncker et al., 2015), the EC created it through the Commission Decision (EU) 2015/1937 of 21 October 2015 establishing an independent European Fiscal Board. The EFB counts with a much more limited mandate and resources, being essentially a body dedicated to advice the Commission on fiscal matters and on the fiscal stance appropriate for the Eurozone, to assess the implementation of fiscal rules, and to cooperate with national IFIs. The EFB, which cannot interfere with the work of national IFIs, is unique since it is the only IFI set up at the supranational level. This particularity explains some of the problems faced by this institution, given that it does not have a well-defined level or set of institutions to oversight. Due to its low profile, limited attributions and our focus on the national level, we will exclude this agency from our analysis.

3. Variables and indicators

This short section seeks to provide a general overview of the variables and clarify some of the decisions taken by our team in the exploitation of the data. As most of the data comes from other sources, the interested reader should also examine the methodological specificities and the explanations given by the primary sources. References are all included in the body of the paper.

3.1 Institutional model

- **Source:** OECD
- **Description:** This variable captures the institutional form adopted by a particular agency.
- **Values:**
 - *Fiscal Council*
 - *Audit Office*
 - *Parliamentary Office*
- **Notes on the data:**
The original data covers 27 agencies and it is incorporated as it appears in the dataset. In this case, we add the remaining 11 cases based on the information collected from their website and the literature.

3.2 Legal basis

- **Source:** OECD
- **Description:** This variables captures the highest legal provision on which the establishment of the IFI is based.
- **Values:**
 - *Constitutional*
 - *Primary Legislation*
 - *Other*
- **Notes on the data:**
The data is extracted from the OECD dataset and it is not expanded to additional cases. However, we do perform one transformation to the original data.

Thus, in the case of Irish Parliamentary Budget Office we modify the original categorization (other) and add the country to the group of IFIs established by Primary Legislation. The OECD originally coded the Irish Oireachtas Parliamentary Budget Office under 'other' because its legislation was pending. However, this is no longer the case after the parliament passed in 2018 the '*Houses of the Oireachtas Commission (Amendment) Act 2018*', which is why we included such agency under the category 'primary legislation'.

Additionally, in two cases (Hungary and Finland) there is a mix of constitutional and primary legislation provisions.

In the case of Finland, where fiscal agency is a unit within the National Audit Office (NAOF), the NAOF as a whole is covered by a constitutional provision, while the fiscal agency was created via primary legislation. In the Hungarian case, the fiscal council is covered in both constitutional and primary legislation.

Thus, the OECD codes the Hungarian case as 'Constitutional' (because the provision refers directly to the fiscal agency) and the Finnish case as 'Primary legislation' (because the provision refers to the NAOF, but directly to the fiscal agency). We respect this classification in our analysis.

3.3 Nature of leadership

- **Source:** OECD
- **Description:** This variable captures whether one person or a collegial body (e.g. board) exercises the management of the institution.
- **Values:**
 - *Individual*
 - *Collective*
- **Notes on the data:**
Data is taken as given by the original source

3.4 Leadership commitment

- **Source:** OECD
- **Description:** This variable refers to the amount of time dedicated to the job by the managers of the IFI.
- **Values:**
 - *Full-time*
 - *Part-time*
 - *Both*
- **Notes on the data:**
The data is taken as given by the original source

3.5 Type of selection process

- **Source:** OECD
- **Description:** This variable captures if a short-listing or nomination process must be observed to be appointed to the leadership of the IFI or if there is a direct appointment (regardless of the criteria used to make such decision) assume such office.
- **Values:**
 - *Short-listing/nomination*
 - *Appointment*
- **Notes on the data:**
The data is taken as given by the original source

3.6 Method of selection

- **Source:** OECD
- **Description:** This variable captures which selection process is used to choose the nominees among those countries that count with a short-listing/nomination process. Thus, this indicator is connected with the previous one.
- **Values:**
 - *Executive nomination*
 - *Parliament nomination*
 - *Incumbent nomination*
 - *Range of stakeholders nomination*

- *Open competition*
- **Notes on the data**
The data is taken as given by the original source.

3.7 Institution in charge of final appointment

- **Source:** OECD
- **Description:** This variable captures which institution is charge of ultimately selecting the person that is going to be appointed to the position.
- **Values:**
 - *Executive*
 - *Parliament*
 - *Other institution*
 - *Range of stakeholders*
- **Notes on the data:**
The data is taken as given by the original source

3.8 Secondary approval of final appointment

- **Source:** OECD
- **Description:** This variable captures if the nominee or the person provisionally appointed needs to obtain the approval of an additional institution to complete the process and become part of the management of the IFI.
- **Values:**
 - *Needed*
 - *Not needed*
- **Notes on the data:**
The data is taken as given by the original source.

3.9 Budget

- **Source:** OECD and ECB
- **Description:** This variable captures the size of the budget assigned to the fiscal agencies.
- **Values:** *Quantitative variable. The values of the variable are expressed in millions of euros*
- **Notes on the data:**
The original data is expressed in local currency. For the majority of the countries available, this information comes in Euros. However, for the agencies of Czech Republic, Denmark, Sweden and UK the data is expressed in their respective local currencies.

We transformed the budgets from the local currency to euros using the Euro foreign exchange reference rates provided by the ECB (2020). In order to do this transformation, we take as a reference the exchange rate at the beginning of the budget year. For instance, according to the OECD the budget for Czech Fiscal Council was 21.01 million CZK for the year 2018, in order to compare the size of this budget against the other agencies we take the exchange rate of EURO CZK on the 02/01/2018, arriving at a

budget in euros of 0.8 million. This procedure is repeated for all those institutions whose budget is expressed in other currency. Additionally, we should be aware that the budgets taken by the OECD are not all from the same year, i.e. 14 are from 2017, 9 from 2018, 2 from 2019.

3.10 Number of staff

- **Source:** OECD and IMF
- **Description:** Number of people working in the organization
- **Values:** *Quantitative variable. The values of the variable are the number of people in the organization*
- **Notes on the data:**
Since this variable is present in both the OECD and the IMF dataset, we combine the data available to maximize the amount of cases covered. We rely on the OECD as the primary source, using the data of the IMF when the data from the OECD is not available. In the vast majority of the cases, the figures contained in each dataset are the same or very similar.

However, there is a remarkable difference between the two sources in the case of Finland, where the OECD records 4 employees versus the 141 of the IMF. The number of the IMF is surprising if we consider that the Dutch CPB, which tends to be considered the strongest and best funded fiscal agency, has 121 people in the staff. After investigating the NAOF numbers in more detail, we conclude that the difference is caused by what they are measuring as part of the staff of the fiscal agency. Thus, the IMF seems to be taken the value of the whole National Audit Office of Finland (today 150 and at the time 147), while the OECD is taken into account the Fiscal Policy Monitoring team (currently composed by 8 members and close to the 4 people recorded by the OECD at the time). As we already mentioned, the Finnish fiscal agency is a unit within the Audit Office, but the Audit Office performs several other functions. Thus, we believe that the OECD data represents better the true resources of the fiscal agency.

A few other minor discrepancies worth mentioning are the cases of the Belgium High Council of Finance (41 according to the OECD vs 26 for the IMF), the Danish Economic Council (53 vs 46), the Italian Parliamentary Budget Office (27 vs 21) and the British Office for Budget Responsibility (30 vs 20). However, we believe that this is a discrepancy that can be explained by the year in which the information was taken or the operationalization of what employees should be counted. Again, in all these cases we take number from the OECD.

3.11 SIFI Index

- **Source:** European Commission
- **Description:** The Scope Index of Fiscal Institutions (SIFI) is a variable that captures the tasks carried out by the fiscal agencies, weighted by a legal force coefficient and a weigh associated to the task. The tasks included are six:
 - Monitoring compliance with fiscal rules

- Macroeconomic forecasting
- Budgetary forecasting and policy costing
- Analysis of long-run sustainability of public finances
- Promotion of fiscal transparency
- Normative recommendations on fiscal policy

The legal force scores can be 1 (for tasks stipulated in the legal remit), 0.5 (for own initiative tasks carried out regularly) or 0,25 (for own initiative with sporadic output). There are up to four different weighting schemes, but the default one (EU Scheme) assigns a weight of 30%, 25%, 20%, 10%, 5% and 10% to each of the tasks mentioned above.

- **Values:** *Quantitative values. Scores go from 0 to 100*
- **Notes on the data:**

The data is available for the period 2014-2018. As the other indices are not available in historical series, we use the average of the available period for this indicator.

In addition to the standard form, there is also a version of this index calculated on a country-basis instead of on an agency-basis. We apply the same procedure to use this data.

3.12 SEC Index

- **Source:** Beetsma et al. (2019)
- **Description:** The Signal Enhancement Capacity Index is an indicator that takes into account four dimensions: the breadth of the mandate, the ability to communicate with the public, the possibility to interact with stakeholders and the independence from politics.
- **Values:** *0-100 (transformed)*
- **Notes on the data:**

We take the data as given by the original source. In this case, we had to input the data manually from the tables facilitated by the authors in the approved version of their article Beetsma et al. (2019).

We use the unweighted version of the index, in which all the dimensions are weighted equally because it was not entirely clear the procedure followed for the weighted for independence version (which assigns more importance to this dimension).

The data was transformed from a 0-1 scale to the 0-100 scale used in our article to facilitate the comparison with the other indexes.

3.13 OECD Index

- **Source:** OECD (transformed)
- **Description:** This index captures the level of independence of the IFI. It is calculated on the basis aggregating the scores given on the basis of 9 questions related with the institutional, operation and financial independence.
- **Values:** *Quantitative variable. Scores go from 0-100*
- **Notes on the data**

Unlike the European Commission or the IMF, the OECD does not develop a measure to quantify the level of independence in its dataset. Therefore, in order to create some

sort of metric, we transform these binary (yes or no) questions and then aggregate the number of responses. Once we have completed this process, we obtain a scale of 0-9²¹ that we then convert into a 0-100 index to allow for a clear comparison against the other two measures.

The OECD original classification is a filled circle when the answer to the question is a clear 'yes', an empty circle when is a clear 'no' and a semi-filled circle when some exception applies. Consequently, we award a 1 to the filled circle and a 0 to the empty circle. In those cases with a semi-filled circle, we review the explanations provided in the footnotes to decide whether to award a 0.5 (when the condition is partially met, but not completely) or a 1 when the condition is met and the additional explanation is just to clarify a technical or formal detail. This process was carried out by the researchers and a student, discussing those cases that seems dubious and taken a decision by consensus.

In the future, it would be interesting to use an inter-code reliability measure. However, given the relatively small sample of cases, the time constrains and the apparent consensus on the codification, this has not been done at this stage.

List of questions:

- Leadership appointment made on the basis of merit and technical competences?
- Clearly defined term lengths for leadership?
- Can the term be renewed?
- Clearly defined criteria for dismissal of leadership?
- Leadership has control over the hiring process of staff?
- Able to set its own work programme within bounds of its mandate?
- Able to undertake analysis at its own initiative?
- Has a separate budget line?
- Has multi-annual funding commitments?

Semi-filled circles and scores assigned:

- In France, the terms of the Court of Auditors magistrates are renewable once, but the terms of the outside experts are no-renewable. Score: 0.5
- In Portugal, the term of all members is non-renewable except for the non-executive members who are eligible for reappointment once. Score: 0.5
- In Sweden, the chair can be in post for up to six consecutive years. Members can be in post for up to three consecutive years unless they are subsequently proposed to be chairman in which case they may be appointed for a further three years. Score: 0.5
- In Austria, the fiscal council's staff are seconded from the Oesterreichische Nationalbank. However, FISK have discretion over who is seconded. Also in Austria, the PBO tests and shortlists candidates which are then put to a

²¹ One of the questions ("Can the term be renewed?") is not applicable in the case of the Finnish NAOF. Thus, in this case the scale here would be 0-8, which is then converted into a 0-100 scale to make it comparable.

selection committee for consideration. The PBO is a member of this committee as well as two staff representatives from the Parliament and one employee representative. The committee ranks the candidates, but the final selection is taken by the Parliament President. Score: 0.5

- In Finland, staff are appointed by Chairman of the Economic Policy Council, but the staff contract is with the Ministry of Finance. Score: 1
- In Greece, staff are selected by the PBO but the final hiring decision is taken by Parliament. In addition, around half of the PBO's staff are appointed for a fixed term (5 years) by the PBO's leadership and the other half (permanent staff) are appointed by usual Parliamentary procedures. Score: 0.5
- In Hungary, the Fiscal Council has control over who it hires, but staff are officially hired by the Office of the National Assembly and those employed as public servants are subject to same rules as other public servants. Score: 1
- In Ireland, the budget provides the council with the flexibility to hire staff, although prior approval is needed from the government, which can be seen as a limit on its administrative independence. Score: 0.5
- In Luxembourg, the council's staff are seconded from the MoF. However, CNFP have discretion over who is seconded. Score: 0.5
- In Austria, funding comes from the central bank, which is obliged to provide it. This insulates FISK from potential funding pressures from the executive branch. Score: 0.5
- In Ireland, PBO is funded by the Oireachtas which has a three-year budget approved through legislation. Score: 0.5
- In Italy, Article 19 of the law sets out the funding levels for the PBO, providing for an annual budget of up to €6 million a year. This is a permanent funding arrangement designed to give the PBO adequate stability in preparing its spending programme. Score: 1
- In Portugal, the CFPs budget appropriation 'can only be reduced in duly justified exceptional circumstances'. Score: 1
- In the Slovak Republic, the CPB's budget is linked to the nominal growth of the current budget of the National Bank. Score 0.5
- In Slovenia, the fiscal council proposes its budget appropriation for approval by parliament as part of the annual budget process. Score 0.5
- In the United Kingdom, the Scottish Fiscal Commission is provided information on their budget for the next three years. Although only the forthcoming year is fixed, this provides a basis for recourse if there are any significant changes to the Commission's budget for subsequent years. Score 0.5

3.14 Agencies remit

- **Source:** Jankovics and Sherwood (2017)
- **Description:** This variable captures whether the agencies perform the tasks assigned to the IFI within the EU governance framework. It is composed by up to 20 tasks
- **Values:**
 - *Production of macro forecasts*
 - *Endorse budget forecasts*

- *Ex-post assessment of NFR*
- *Assessment of SCP*
- *Monitor sub-national budgets*
- *Qualitative costing*
- *Macro research*
- *Endorse macro forecasts*
- *Assess budget forecasts*
- *Involvement in corrections*
- *Recommendations*
- *Long-term analysis*
- *Transparency*
- *Assess of political programs*
- *Production of budget forecasts*
- *Ex-ante assessment of NFR*
- *Assessment of budget draft*
- *Continuous monitoring*
- *Quantitative costing*
- *Public finance research*
- **Notes on the data:**

The data is extracted and input manually from the article. No transformation was made.

3.15 Aggregate scrutiny effectiveness:

- **Source:** Horvath (2017)
- **Description:** This variable captures the (potential) ability and capacity of the IFI to fulfill its role. The indicator is calculated on the basis of the scores in 7 dimensions: breadth of mandate, financial resources, human resources, access to information, public awareness, reaction from government, and relationship with the parliament.
- **Values:** *Quantitative variable. Scores go from 0 to 1.*
- **Notes on the data:**

In the final version published in Horvath (2018) it is not possible to obtain the disaggregated data that we needed to analyze the information. Therefore, we extract the disaggregated data from the tables available in Horvath (2017) and then estimate the aggregate score to present the scrutiny effectiveness indicator. This means that the results may differ slightly from one version to the other.

3.16 Influence of fiscal agencies on the budget process:

- **Source:** IMF
- **Description:** This variables aggregates a set of dummies that express whether a fiscal agency play a certain role in the budgetary process. Thus, each of them is an influential task or prerogative related with the budgetary process that the agency can (or not) do. More of these tasks means more influence in the budget process.
- **Values:**
 - *Forecast preparation*
 - *Binding forecasts*

- *Formal consultation*
 - *Comply or explain*
 - *Can stall the budget process*
- **Notes on the data**
The data is taken as given by the source

3.17 Number of mentions in the press:

- **Source:** Claeys (2019)
- **Description:** The variable captures the number of times one agency has been named in the national press
- **Values:** *Quantitative variable. Values expressed number of mentions*
- **Notes on the data:**
The data is taken as provided by the original source

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